



ECONOMIC DEVELOPMENT
NEW ZEALAND



Submission to the New Zealand Productivity Commission

on the **Future of Work**

Economic Development NZ

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EDNZ SUBMISSION TO THE PRODUCTIVITY COMMISSION ON THE FUTURE OF WORK



WE THANK THE PRODUCTIVITY COMMISSION FOR THE OPPORTUNITY TO COMMENT ON SUCH IMPORTANT ISSUES FACING NEW ZEALAND. WE ALSO COMPLIMENT THE COMMISSION ON THE STRONG FIRM-LEVEL AND GOVERNMENT POLICY ANALYSIS AS WELL AS FOCI ON DIGITAL TECHNOLOGIES, LABOUR MARKET DYNAMICS, SKILLS, EDUCATION, INNOVATION AND PRODUCTIVITY. THIS PROVIDES A STRONG FOUNDATION FOR ANALYZING TECHNOLOGY AND THE FUTURE WORK.

EDNZ BELIEVES THAT WIDER CONSIDERATIONS ALSO NEED TO BE FACTORED IN ALONGSIDE A FUTURE FOCUS ON HOW POLICIES CAN BE ACTIONED EFFECTIVELY.

4 JUNE 2019



FOR TOO LONG WE HAVE RELIED ON MACROECONOMIC SETTINGS AND HOMOGENOUS NATIONAL POLICIES TO GUIDE OUR ECONOMIC DEVELOPMENT EFFORTS.”

KEY POINTS

1. There is a strong emphasis in the paper on ‘the firm’ and microeconomic approaches to increasing productivity and innovation. This provides many, but not all, paths to addressing technological disruption and ‘future of work’ issues for New Zealand.
2. We note that digital technologies are discussed in depth whereas climate change, trade and business cycles are outside scope as are other macro issues such as energy, food security, inclusiveness and biotechnology. These are important drivers of market behaviour and technological development.
3. We also note that territorial factors, such as regional and inter-regional dynamics, are missing which will have significant effects on preparedness and actions.
4. A continued emphasis must be placed on understanding regional economies and on regional economic development. Too much emphasis has and is placed on traditional macro- and micro-economic policies.
5. Regional economic development attempts to bring macro, economic, social, political, cultural, geographical and environmental considerations together, in a place, and at a scale where these considerations are comprehensible and can be orchestrated into meaningful actions.
6. For too long we have relied on macroeconomic settings and homogenous national policies to guide our economic development efforts. They can provide the right settings, but these must somehow be reflexive, tailored and implemented. In some cases, private and civil society will adjust accordingly to national policy settings. In others, a degree of subsidiarity and flexibility is required.
7. Regions provide the most effective unit of analysis for implementing economic (in concert with social and environmental) development policy. They allow for differentiated strategies attuned to regional economies. They provide economies of scale but bounded settings for policy and action, monitoring and evaluation, and they provide a setting where a combination of macro, territorial and economic factors can be taken into consideration together.
8. Strengthening government support programmes and creating an ecosystem for business development support and innovation, can best be done at a regional level.



REGIONS PROVIDE THE MOST EFFECTIVE UNIT OF ANALYSIS FOR IMPLEMENTING ECONOMIC DEVELOPMENT POLICY”



9. EDNZ suggests that the commission go beyond innovation that is centred within the firm to an understanding of milieu effects and innovation systems. The triple helix approach, for example, sees the nexus between research (public and private), government and academia being explored. Milieu effects explore the dynamics of a place. These networked approaches hold much more hope of addressing complex market and societal issues. Firm-centred policy, while market-led, can be isolated in effect favouring the firm before wider public good outcomes even if the innovation addresses a favoured policy position.

10. The scenarios presented, while logical given the analysis undertaken and the scope of the investigation, are inadequate when trying to understand the multi-factor and complex inter-relatedness of shifting patterns of development. The Commission's preferred scenario (2), while alerting us to possible consequences of non-action or signs of disruption, is not a good reason to call it the 'preferred' scenario.

11. EDNZ ascribes to scenario four but not framed in the way it is in the paper. More that, incremental change can be achieved providing that context and complexity are considered.

12. EDNZ also favours reflexivity in policy and action, adjusting as we learn from implementation. Regions provide manageable scale and scope for testing and adjusting policies and actions.

13. EDNZ, therefore, concurs with the commission's view that 'dealing with an uncertain future calls for a different approach, characterised by keeping options open, collecting and monitoring information, engaging with stakeholders, delaying difficult-to-reverse decisions, real-options analysis, [and] building flexible institutions' (p18).

14. EDNZ believes that regional economic development agencies are flexible institutions that need to be more strongly supported to meet future challenges on the front line.

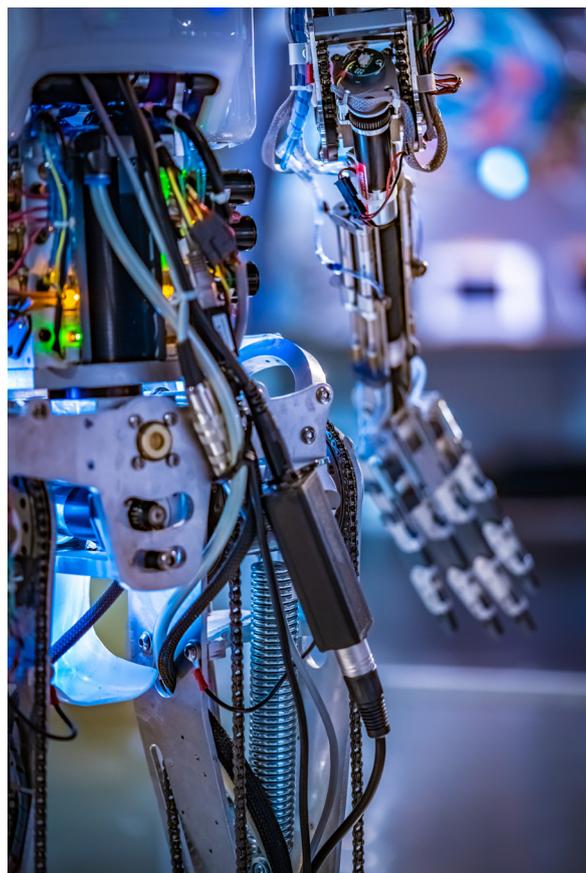
15. EDNZ does not concur with the statement 'taking action just-in-time' (ibid). Rather, believes that complexity can be examined, and a synthesis of factors can be achieved, to make strategic and reflexive policy decisions that head off or ameliorate disruptive effects.

ADDRESSING THE COMMISSION'S QUESTIONS

Brief commentary on questions posed by the Commission is provided below drawing on the experience of members. Fuller discussion is welcomed. Scenario projections are avoided for reasons outlined above.

16. Questions 1,2, 3 and 4 have been dealt with in our key points above.

Qs 5 and 6. What policy objectives should governments pursue for the labour market of the future? What are the potential tensions between different policy goals? How might such tensions be best addressed?



17. EDNZ agrees with the Commission's outlining of policy goals, areas of exploration and emphasises a goal of a 'dynamic, productive, sustainable and inclusive economy' and therefore supports further efforts in innovation and inclusiveness.

18. On barriers to occupations, EDNZ agrees that reducing access barriers to increase work mobility. However, cautions against complete liberalization on the grounds of safety and security. Those occupations that require legal, ethical and moral considerations require commensurate levels of regulation and expertise in the public interest.

“THESE ARE ETHICAL QUESTIONS!”

19. As stated on page 21 NZ already has a liberalised labour market economy, this has advantages in access to employment and work/life balance but disadvantages in increasing precariousness for workers. The nature of work is changing with increased casual, flexible, portfolio and contractual careers. A job for life is no longer meaningful, and a welfare system built on that is anachronistic. EDNZ suggests, therefore, increasing protections for casual and contract workers, particularly in ‘reasonableness’ and ‘good faith bargaining’ protections under the law. Easy low-cost access to the Employment Court would allow society to react to the changing nature of work without prescribing regulations that are more appropriate to different circumstances and a different time.

Qs. 9, 10 What types of worker protections might be required where technology provides employers with a growing ability to monitor staff or discriminate against some people? Apart from a potential increase in gig work, what other new work arrangements are emerging, or are likely to emerge in the near future? What are the implications of these work arrangements, and what response from government might be required?

20. These are ethical questions. EDNZ suggests that the changing nature of work, and the effects of technology on work, be addressed by an independent body made up academic ethics experts, business, unions and MBIE policymakers.

Qs 12, 13 and 14. What changes might be required to minimum notice periods under each of the future scenarios? How effective is the income support system in assisting different groups of people? What specific challenges might arise under the future scenarios? What changes to the system might be needed to address these challenges? What are the advantages and disadvantages of the following policies under each of the future scenarios – universal basic income, unemployment insurance and redundancy compensation schemes? What other income support policies are worth considering?

21. EDNZ suggests exploring ways of expanding ACCs role in worker insurance to extend to redundancy as the collection system is already in place. We would expect worker and employer co-contributions. Redundancy, then, would be assessed on an individual income basis rather than household and would become work-related rather than social service and unemployment related. We acknowledge the complexity involved in different government departments working together, for example WINZ and ACC, but think that a state-owned insurer could smooth work transitions with other public policies and benefits.

22. Under the terms of increased protection to independent contractors, where reasonableness and good faith bargaining provisions are strengthened, a minimum statutory notice becomes more feasible.



23. Universal Basic Income has too many unanswered questions and possibly unintended effects associated with it. It also has the disadvantage of an unproven benefit-cost ratio and complex interrelatedness and interdependencies with other labour market and social policies. A possible extension could be for youth, however, EDNZ believes that reducing barriers to youth employment with employers would be a better pathway at present.

24. Active labour market policies. EDNZ does not believe that large subsidised government employment schemes are useful in the long run. Our current ALMP spend is low by OECD standards but EDNZ believes that a large proportion of that spend is on a supply side push. These programmes, by and large work within the cohorts that they are targeted to. EDNZ believes that more emphasis should be put on demand-side labour market interventions, such as support for employer training schemes and partnerships between the public provision of skills and education and private sector on-the-job training to both widen the nature and scope of training and the nature of work opportunities. This might extend to how to set up and run your own contractor business and/or how to manage a portfolio of jobs.

Q.17 and 19 How well do the current outcomes from the education and skills system position New Zealand to respond to changing technology and different future scenarios?

25. EDNZ is pleased to see, that on the whole our education system and skills training performs well on international benchmarks. And, we are not surprised that the average migrant worker is less skilled than the average NZ worker. However, we do not believe that this can be used as a reason for wholesale policy change as migrants fill many jobs that do not displace NZ workers. But this is a balance for a country so reliant on primary production and exports to maintain its standard of living.

26. EDNZ is pleased that evidence supports that NZ rates of literacy and numeracy and problem-solving skills are above average in the OECD (p.35). Once again however, Maori and Pasifika fall behind on these indicators and this should be addressed. A future with more non-routine jobs, and a need for increased digital literacy and problem-solving skills accentuates these points. Easy access to ongoing education also needs attention as workers wish to upskill.



Q. 18 What changes to immigration policy to address skills needs might be required under different future scenarios?

27. Governments have repeatedly depended on immigration to boost the economy through increasing domestic demand and consumption. This is a low road for economic development, and while new skills and trade connections are floated as good reasons for immigration, the evidence supporting these assumptions is weak. EDNZ supports targeted skills in immigration policy but is equally concerned with equipping NZ citizens for future work. It also supports economic development policies that seek to strengthen and diversify the NZ economy, particularly in its mix of exports, and in addressing regional disparities, therefore international trade connections are important.

Qs 20 and 21 What evidence is there of digital divides in New Zealand? What are the consequences for labour market participation and which groups are most disadvantaged?

28. EDNZ supports and is pleased with advances being made by Crown Infrastructure Partners in digital connectivity across NZ. As Lips (2015) argued ‘The most digitally excluded groups



were identified as adults with disabilities, children with special needs, Pasifika, Māori, senior citizens, people from low socioeconomic backgrounds and those living in regions or communities with low internet uptake rates.’ (P. 37). Increasing digital connectivity is fundamental to increasing inclusiveness and opens up new work opportunities for New Zealanders and NZ businesses.

Infrastructure however is not enough, access and affordability will be a key concern as will digital literacy for youth, workers and firms alike. Digital connectivity provides the opportunity for ubiquitous technologies to be shared, for information exchange to increase and for market access to be enhanced. EDNZ supports increased focus on access and literacy alongside infrastructure.

29. EDNZ also suggests that more emphasis is placed on business support programmes that increase business literacy, innovation and productivity. Not just in frontier sectors but across the board where even increased utilisation of ubiquitous technologies can have marked effects on business growth.



Qs 22 and 23. What factors underpin New Zealand’s apparently poor matching of skills with jobs? To what extent are mismatches a problem? What future scenarios are most likely to accentuate poor matching? What policy options are available to improve matching in the New Zealand labour market?

30. As mentioned above EDNZ is concerned with NZs export mix with a continued heavy reliance on primary production, relatively low value added and an increasing reliance on China, exacerbating the situation. Carey’s (2017) issue with the low rate of employment in large firms in NZ, and or the prevalence of small firms being reasons for an underutilised workforce is taken from comparisons of other jurisdictions and while strong empirical evidence supports these claims is not a reason to pursue a strategy of creating large firms to compete with even larger firms.

31. EDNZ believes that economic development strategies that use our skilled workforce in new technologies and business models that leverage NZs comparative, competitive and collaborative advantages are a better course of action.

32. Improved matching could also be achieved through mediated collaborative efforts to address market failures and take advantage of market opportunities. This requires networked agencies (such as EDAs) aware of their own [regional] context but part of national and global networks and value chains.

Q. 24 How well does New Zealand’s education and training system reflect the changing skill needs of industry? Is the education and training system able to effectively respond to changing technology and different future scenarios?

33. EDNZ supports efforts, such as the review of Institutes of Technology, that promote business connection with the tertiary education system. EDNZ also believes that there is still a disconnect between the tertiary sector and the future demands of the economy, particularly in relation to the future of work and developing sectors.

34. EDNZ recommends stronger connections between Regional economic development agencies and tertiary providers where stronger market intelligence can be gathered by ITPs and ITOs about strategic industry developments in their regions, and where EDAs, talking to business interests daily, can make businesses more aware of education offerings.



Qs 25, 26 and 27 What programmes exist to support people to retrain, upskill or adapt to changing technology, and how effective are they? How well equipped is New Zealand's education and skills system to support people to adapt to technological change over the course of their careers? How might the incentives for firms to invest in staff training change under each of the Commission's future scenarios? Under which scenarios would there be a case for greater government investment in firm-based training?

35. EDNZ believes NZ is poorly served in mid-career retraining as both the tertiary sector and businesses provide barriers, regardless of future scenarios. The tertiary sector is geared towards school-to-work transition and sees schools and overseas students as its primary markets. Businesses find it difficult to free up time for their valuable workers. Workers find it difficult to manage competing demands of work and family. Micro-credentialling is one way to address these issues and should form part of a concerted effort to support re-training. Other policies could include providing employees with paid study time (from the business owner) subsidised by free or reduced fees as micro-credentialling will most likely fill gaps in upskilling but not in management training or applied research and development.

Q. 28 What changes are needed to provide prospective students, including adults and those already part-way through a career, with the skills needed to make informed decisions about education and careers?

36. EDNZ supports TEC in their efforts to weave careers management and advice throughout the school and its activities and enable lifelong and life-wide management of work and learning. EDNZ, however, believes the largest gap in careers advice is still in schools and that the focus should be on years 9 and 10 as they begin to shape their secondary learning pathways

Qs 29 – 33 Which barriers to competition and investment should be priorities for reform in a government innovation strategy? What changes, including to government funding for R&D, might be needed to improve the returns to firms from innovation? Are there particular regulations or areas of regulation that will need to be updated to maximise the benefits from technological change? Do these areas differ, depending on the future scenario. What changes, including to government funding for R&D, might be needed to improve the returns to firms from innovation? What steps should be taken to promote technology transfer and build absorptive capacity in New Zealand firms? What steps should be taken to strengthen the international connections of New Zealand firms?

A SMALL LIBERALISED ECONOMY

37. Build a stronger business development ecosystem: NZ is a small liberalised economy characterised by high dependence on a narrow range of exportable goods and services and low value add. It is in danger of narrowing this dependence unless innovation is at the core of economic development policy. Private and public sector R&D is low compared to other OECD nations. This is a productivity trap and goes some way to explaining the productivity paradox of low GDP/cap alongside one of the most conducive business and trade environments in the world. The Commission has suggested ideas that will seek to enhance firm innovation and EDNZ supports the government in increasing private sector R&D subsidies. EDNZ believes that the business development ecosystem needs strengthening.

38. Innovation requires more than R&D subsidies or grants where the returns to product and process innovation are low meaning that the benefits may accrue elsewhere. The way to diversify our economy and gain footholds in global value chains is through deep and smart specialisation, collaboration and business support systems. Currently the innovation support system is city-centric with a focus on hi-tech industry.

39. Smart specialisation for both the cities and the regions: smart specialisation requires some depth in industry sectors, knowledge intensity, comparative or competitive advantages and the ability to provide system support to realise those potentials in NZ companies. Currently the innovation support system is city-centric with a focus on hi-tech industry.

This is appropriate for city-regions and should continue as frontier sectors will be important to NZs economic development. However, higher-value and value-added exports are still lagging. As much effort should be focused on primary sector value-added R&D combined with digital technology, biotechnology and ‘internet of things’ advances in our primary sector. These can provide quick wins to NZs productivity.

40. One to one support: in regions, where new and established firms can grow and innovate. This will require increasing firm capability across a number of areas mentioned in the paper, however the govt support mechanisms are severely under-resourced a) gain the reach into communities – both geographic and cultural – and b) to provide the right kind of support to enhance diffusion of technology, reduce capital constraints, increase technology absorption, value-added products and services and exports. Therefore, EDNZ believes the one to one founder- or firm-focused government business service provision needs to be taken more seriously and the EDAs need more capability and capacity on the ground to implement programmes and provide services.

41. Often there are sector/cluster/industry-wide innovations that can support a group of firms in technology diffusion, collaboration on common issues such as market access and penetration, marketing, best practice, process and product innovation, logistics and industry synergies and symbiosis. But again, this requires the reach and capacity to enable it to happen.



42. Building innovation systems that are market-focused requires work and commitment over several years with actors in the system. Pulling the triple helix of government, research and firms together to focus on innovation, in a domain or specialisation, takes time and effort on the ground, in a place. It may require reaching back into the national innovation ecosystem to support local firms or it may require assembling local system assets to increase R&D efforts. An innovation system does not always require a large building, but it does require the right kind of systems thinking.

43. Inverse relationship between need and resources: currently the business support ecosystem is severely under-gunned in both city- and rural-regions although needs differ. In the provinces (using current policy framing) this situation is exacerbated where those regions that need the most support have the least capacity.

44. The business support ecosystem is fragmented: with several government agencies providing services into regions alongside or instead of EDAs. This is a government push rather than a firm-or founder-focused pull. A focus on the firm, or cluster of firms, needs a one-front-door approach with case managers that triage to specialist service provision, from both the public and private sector. Strengthened regional EDAs could bring this together.

“ MORE EMPHASIS NEEDS TO BE PLACED ON THE BUSINESS DEVELOPMENT ECOSYSTEM, IN REGIONS, WHERE NEW AND ESTABLISHED FIRMS CAN INNOVATE ”