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Transformation of the Welfare State in New Zealand
with special reference to Employment

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Abstract

This study examines the transformation of New Zealand's welfare state in the movement to a new phase of capitalist development. It adopts a multi-level approach linking the global, national and local levels.

The global level analysis provides the overall rationale for the development and subsequent restructuring of welfare states and reordering of the welfare mix more toward the market.

At the national level, highlighting the collapse of its foundations, this study contends that New Zealand's welfare state has transformed into a 'well-being enabling state'. The goal of the well-being enabling state is to ensure private provision of welfare through labour market participation in a deregulated labour market, rather than through direct state provision. Employment policy, including policies for enhancement of human capital, are therefore discussed as 'enablers' of participation in paid employment and private procurement of well-being. At the local level, specific characteristics of the local labour market have to be included in the analysis.

The need for community action for employment creation in order to respond to the challenges of the global economy and a transformed national welfare state, is a major theme of the study. A case study of community employment creation, conducted through a participatory research methodology, highlights the need for innovative local efforts for job creation at the micro or grassroots level. Local employment initiatives, especially those that build on a partnership approach and tap into the cultural wealth of the community through market-leading community entrepreneurship, are shown to be crucial to the mitigation of the current ethnic unemployment problem in New Zealand.

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Errata

p38 paragraph 3 line 6	delete 'division labour' insert 'division of labour'
p93 line 10	delete 'see section 2.3.4' insert 'see section 2.3.5: 51'
p172 line7	delete 'free education state provided education' insert 'free state provided education'
p189 paragraph 2 line15	delete 'creation entrepreneurial' insert 'creation of entrepreneurial'
p196 paragraph 2 line 2	delete 'is' insert 'are'
p202 paragraph 2 line 11	delete 'itself' insert (population close to 300 people)
p288 Mirrlees	insert (1995)

Introduction

1.1 Scope and Methodology

Beginning in 1984, New Zealand has been through a period of substantial economic reform and welfare state restructuring. In this study, the causes and implications of the changing nature of welfare provision are examined to provide an understanding of the radical restructuring of welfare state. The chief argument is that New Zealand's welfare state has been transformed into a new state form, better described as a 'well-being enabling state' rather than a 'welfare state'.

A broad theme that runs through this thesis is an appraisal of strategies and responses that seek to direct and/or enable the procurement of welfare through market means, given that currently prevailing global forces and economic circumstances have demanded a reordering of the welfare mix more toward the market. Enabling actions at the state and community levels, which make a more-market welfare mix possible are discussed. Policies aimed at enhancing capabilities of individuals for greater participation in paid employment, are therefore examined. This analysis also includes an emphasis on aspects of the job creation process, since without adequate employment creation, capabilities for the private provision of welfare are severely constrained. In this respect the supply of entrepreneurship is highlighted as a vital element of employment creation. Similarly, the study recognises the need for community action for employment creation. Existing theoretical literature chiefly on entrepreneurship is augmented here, with the original ideas and concepts put forward and developed to provide the basis for this locally based action.

The study adopts a multi-level approach linking the global, national and local levels. An emphasis on the responses to changing patterns of employment and the challenge of unemployment, provides the linkage between the different levels of analysis. For example, the reshaping of New Zealand's occupational structure as a result of globalisation and the new international division of labour is shown to have had an adverse impact on the employment levels of Maori and Pacific Island Group ethnic minorities. The need to be sensitive to the impact of global change at the micro community level is then highlighted through an examination of innovative local responses to unemployment.

The first level of analysis, the global level, sets the scene for inevitable change in the structure and conduct of welfare states. It is the contention here that the transition of advanced capitalist economies, as they move to a new phase of development, underlies the restructuring of their welfare states which commenced chiefly in the 1980s. The adjustment of welfare states during the transition, however, can take different forms.

The changing form of New Zealand's welfare state is the focus of the second level of analysis, where the nature of New Zealand's welfare state, the need for change in order to fit in with the demands of the international economy and the direction of this change, are included. It is argued in the discussion at this level, that the New Zealand welfare state has been transformed into what may be best described as a 'well-being enabling state' with policy essentially designed to enable private provision of welfare through participation in a deregulated labour market. The goal of the well-being state is to enable welfare provision through individual action, chiefly on the basis of market procurement, rather than through direct state provision.

The changed direction in employment policy especially in the post-1984 period, becomes the focal point at the third level of analysis. The nature and dimensions of the unemployment problem and the present situation of ethnic unemployment differentials in New Zealand are highlighted. Current active labour market policies which form an important aspect

of the well-being enabling state's response to unemployment are discussed.

Measures to build New Zealand's human capital base so as to adapt to a changing technological style is a vital part of the enabling mechanism for private welfare provision. They are a sub-set of employment policy. A discussion of education and training policies and education reform in New Zealand is thus included as an integral part of the study's third tier of analysis. The importance of state policies for training and education, which enable technological upgrading, innovation and new skill formation is stressed. In this segment of its analysis, a contribution of the study to the existing theoretical literature, is an extension to the definition of human capital to incorporate cultural capital. This extension mitigates the lack of conventionally defined human capital of ethnic minorities.

The fourth level of analysis moves down to the grassroots level. Here the local, community response to welfare provision through employment creation is shown to be a necessary and vital aspect of the human face of the welfare state's transformation. A case study of the South Auckland community of Otarā¹ and its response to the changed welfare state is presented. This case study is used to emphasise practical responses and also illustrate the working of 'market-leading community entrepreneurship', a concept delineated in the thesis. The case study also points to the benefits of a culture based approach to employment creation in the selected locality.

Not only does the case study provide a model for tapping cultural capital to create employment in other contexts, but it also serves to emphasise that:

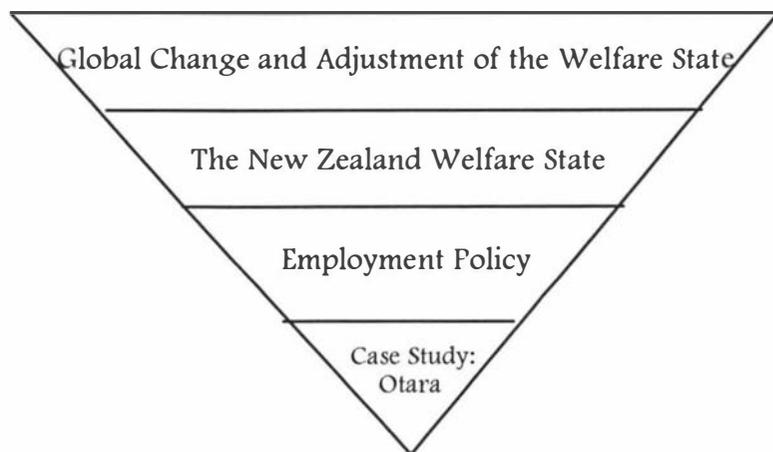
localities in New Zealand are points of intersection of many processes, some highly localised, others stretching around the globe (Le Heron and Pawson 1996: 18).

¹ Otarā is a multi-cultural urban community of around 30,000 people, in the South of Auckland, New Zealand's largest centre of population. Details on Otarā are provided in section 7.3.1 and Appendix 3 of this study.

The development of location/culture specific skills is thus another original idea that the case study develops and advances as means of escape from the constraints imposed by the new international division of labour. The role of tourism in creating regional employment opportunities in keeping with the synergy of the global economy is highlighted in the case study. In particular, the development of urban tourism potentials and the process of developing a sustainable tourist product, in order to provide employment for labour market disadvantaged ethnic groups, is examined.

The four levels of analysis are illustrated in the triangle below:

FIGURE 1.1
The Multi-level Analysis of the Study



At the first level of analysis, which offers a rationale for the radical change that has occurred in welfare states in the capitalist world, the roll-back of the welfare state is set within a theoretical global and general context. This is essentially an attempt to find a rational explanation at the global level for the universal move toward welfare state restructuring and reform. Sources of information here are mainly secondary. The reader is referred to published material which has influenced views contained in the study. A selected body of literature is used to periodise the long cycles in the growth of the world economy and examine the broad implications for the welfare state of the transition to a new phase of capitalist development.

Moving on from the global perspective to concentrate on the territorial response to changes in the international economy, the thesis emphasises the employment/unemployment aspects of the welfare state in New Zealand. The terminology 'employment policy' is used to mean public policy to maintain or increase the level of employment, and is used interchangeably with labour market policy. Labour market policies may be conceptually categorised into two broad areas (Working Group on Employment Policy 1988; Shirley et al. 1990):

1. Macroeconomic policies which establish the context in which labour market adjustment takes place and include policies affecting the aggregate level of employment.

2. Measures aimed at the individual within the labour market. These measures aim at assisting and encouraging the individual adjust to changing labour market conditions and include those which act as an incentive for labour market participation. They also include measures to enhance labour market flexibility, to improve human capital and provide training for the unemployed, to assist the unemployed into self-employment and to improve their job search behaviour.

It is chiefly the second group of policies that this thesis covers, though the discussion on human capital in chapter 5, deals with more macro level issues as well.

Commencing with employment policy during the progression of the welfare state and concentrating on the post 1984 period, state strategies designed to redirect welfare provision toward private provision are placed within a theoretical framework of modern labour economics as presented in chapter 4 of the thesis.

One aspect of the methodological process is to identify and locate relevant data. Documentary evidence, published material such as official reports and policy documents were thus the chief source of data used for the delineation of government policy changes.

Early historical data on the dimensions of unemployment in New Zealand and state employment policy, were not the subject of any detailed information search for this thesis as this has already been done. The recent thesis by Mulengu (1994) covers the period 1840-1990. It claims:

there is still no other study which looks directly at social policy continuities and change in the area of state responses to unemployment (Mulengu 1994: 7).

In its analysis of state employment policy, this thesis moves on chronologically from where Mulengu left off, though also covering the 1984-1990 period with greater analytical depth and firmer economic theoretic foundations. The second thesis, Hicks (1984), provides an analysis of unemployment in New Zealand for the period 1960-1981 chiefly in terms of job-search theory. It is supplemented by Hicks and Chin (1984a and 1984b) and provides the empirical basis for some discussion of employment policy in this study.

Action at the grassroots level in order to create jobs which would not otherwise eventuate for labour market disadvantaged groups, is shown to be a necessary response to the transformed welfare state. The community response to ethnic unemployment, which is a focus at the fourth tier of analysis, is conducted through a participatory research methodology.

Participatory research has as its goal the empowerment of people. Researchers play a part as facilitators in a process enabling this development (Small 1987, cited in Boswell and Brown 1990: 49).

The study of the Otara tourism project presented in Chapter 7 clearly highlights these aspects of the research methodology stressed by Small above. The potential for direct community job creation on the basis of a community entrepreneurship model is examined using a case study of this project and by adopting a formative evaluation approach. Intrinsic in formative evaluation is co-operative participation hence this method is also a sub-set of the participatory research methodology.

The formative evaluation approach places importance on understanding the meanings people attach to their actions and the social and cultural contexts in which human interaction occurs. This requires the development of an empathetic understanding of the way in which personal perceptions shape behaviour. Thus formative evaluation is premised upon methodological pluralism. It begins from understanding the local context in which the evaluation is situated (including a profile of its inhabitants, and an understanding of the impacts of social change upon them - with particular emphasis on employment patterns). This understanding builds on an analysis of secondary materials such as official statistics on ethnicity. It also fundamentally builds on a content analysis of community newspapers, local council publications, and other documentation and publications of the community.

The next step in the formative evaluation involves intensive participant observation of the embryonic community entrepreneurship model in Otara. Evaluation is conducted especially for Enterprise Otara's² tourism project. This includes:

- charting the progress of project implementation from its early stages through to maturity.
- identifying the stakeholders and their interest.
- examining the possible problems associated with the operation of projects within a multi-cultural environment.
- providing suggestions for the successful implementation of the project and for the provision of sustainable employment creation within the community.

This process involved this author's active involvement in the on-going stages of the project as well as the recent operation of Enterprise Otara.

² Enterprise Otara is a community organisation, operating as an incorporated society, which seeks to be an agent of change in the South Auckland community of Otara. For details, see sections 7.3 and 7.4 of this study.

Inherent in formative evaluation methodology is the demand that the evaluation enhance programme implementation. It is a product of a paradigmatic shift in research which takes utility as its first principle (Patton, 1982) and responds to the call for science to be ‘not only more integrated but also more participatory’ and to approach the scientific enterprise from a ‘partnership principle’ aimed at generating information ‘based on mutual endeavour that cannot otherwise be obtained’ (*New Scientist*, 25 January, 1992). In keeping with this approach, formative evaluation research demands that an evaluation should not be done at all if there is no prospect for it being useful to some audience (Stufflebeam 1980 cited in Patton 1982: 297). These features of the research methodology, are all clearly evident in the case study presented in chapter seven.

To report the research in the case study segment of this thesis, the first person is used. Although a common practice in some other social science disciplines such as sociology, in studies in economics, use of the first person is not common. I use first person here because I feel it is the more effective way of communicating and presenting the relevant information. My use of first person also draws on the social research debate between the positivist and the ‘humanistic’ approaches. According to the latter approach, social researchers cannot be aloof from the research process.

Far from being a passive reporter, the researcher is an active agent in the construction of the world through the specific ideas and themes incorporated in the relevant form of knowledge (Hughes 1980: 123).

The critique of the positivist orthodoxy on the basis of the humanist alternative also includes the problems of a neutral observation language. Such neutrality goes hand in hand with the aloof observer, passive reporter-like role of the researcher which is implied by positivism.

A simple model of family welfare developed in section 1.2.3 provides an overarching framework for examination of the changing welfare mix. This model is delineated in order to support a broad theme for the thesis and show that while exogenous factors may contribute to the pressure

for a changed welfare mix, there must be deliberate responses both at the national and local levels to enable substitution between the different sources of welfare. Current state responses in terms of employment policy and education and training policy as a subset of employment policy, examined in chapters 4 and 5 of the thesis, can therefore be shown in terms of this model, to be designed to move the welfare mix toward market sourcing by increasing family disposable income through greater individual effort to secure employment and a lowering of income taxes. The local, community response to employment creation, discussed in chapter 7 of the thesis, also may be viewed, ultimately, as a substitution enabling strategy in the face of a transformed welfare state.

Chronologically this thesis concentrates chiefly on the post 1984 period in its analysis of New Zealand. The time boundary set for the conclusion of the study is Spring 1996, just before New Zealand enters a new political era with the first Mixed Member Proportional election (MMP) election on 12 October 1996. Evaluation in the Otago case study, however, continues to the end of 1996.

Briefing papers to the incoming Government from the various government agencies and Ministries, such as Treasury and the Ministry of Education, though a rich source of material particularly for policy analysis, being available only later in 1996 or early 1997, have not been referred to for the purposes of this study. Similarly, several statistics relate to the 1991 Census of Population and Dwellings as the detailed results of the 1996 Census will only be available in 1997.

1.2 Dimensions of Welfare Provision

In capitalist economies, welfare may be sourced from the state, market or non-market sectors. The share of each of these sectors in welfare provision determines the welfare mix. This welfare mix varies in different time periods and across countries. In the traditional, non-monetised society, the family had a monopoly on welfare provision. The spread of monetisation, particularly with the Industrial Revolution, led to the emergence and consolidation of the mixed economy of welfare.

The welfare state was:

the latest stage in a dynamic process of adjustment between individual and society (Fraser 1973: 222).

1.2.1 Defining the Welfare State

There is no clear-cut definition of the 'welfare state'. Titmuss referred to it as an 'indefinable abstraction' with which he was 'no more enamored today' than he had been two decades earlier. (1968: 124). Barr points out that:

the welfare state is one of those concepts that defies precise definition...the boundaries of the welfare state are not well defined (1993: 6, 7).

The term welfare state is thought to have been coined by William Temple, the Archbishop of York, when he distinguished between the 'welfare state' which would serve the common interests of citizens and the 'power state' which serves the interests of tyrants as in Nazi Germany (Temple 1941, cited in Barr and Whynes 1993: 6). Losing its original religious and moralistic overtones, the term became popularised in Britain after the Second World War and its use spread to other developed capitalist economies. It came to be used as a convenient way of referring to the economic and social policy changes that were taking place at the time. These policy changes had three broad strands. First, the introduction and extension of state provision of social security, health, education, housing, employment and other welfare services. Second, the maintenance of full employment which underpinned policy. The third strand comprised a programme of nationalisation. Together these strands constituted the welfare state (Johnson 1987: 3). The welfare state became 'a common phenomenon of all capitalist societies' (Wedderburn 1965:127).

Generally there is consensus that the modern welfare state was initiated when governments enacted social security legislation to establish government funded income security measures. These represented a clear break with the earlier poor relief forms which afforded a degree of

social protection but at the expense of citizenship rights (Rimlinger 1971; Flora and Heidenheimer 1981; Skocpol and Amenta 1986).

The principle of the modern Western welfare state is that the state has the ultimate responsibility to ensure that the material well-being of any of its citizens does not fall too far below that of the average citizen. In New Zealand, this principle was formalised when the Royal Commission on Social Security (RCSS) introduced the concept of the state ensuring a standard of living that would allow '*participation in and belonging to the community*' (RCSS 1972: 65, original's italics).³

Often, the term welfare state is used as a generic one to refer to public programmes chiefly in the areas of income maintenance, health, education, training, social welfare services and housing. These programmes are however, only 'the most visible manifestation' of the principle of the welfare state. For the purposes of this study, the terms welfare state and 'welfare statism' are taken in a broad sense to refer to:

the use of state power and responsibility towards the ends of protecting citizens against economic adversities and *ensuring a certain standard of prosperity to all* (my emphasis, Pfaller et al. 1991: 2).

This definition is in keeping with the principle of the modern welfare state. It does however, involve a normative interpretation of the 'welfare state'.

There is a lack of consensus on what constitutes the objectives of the welfare state. The reduction of poverty and income inequality have, however, often been implicitly accepted as broad goals of the welfare state particularly in relation to its transfer programs. Nevertheless,

...recent writings from all sides make it abundantly clear that the ideals which inspired the achievement of a "welfare state" are now no longer universally shared. Comprehensive

³ Ignatieff is thought provoking when he asserts that 'words like fraternity, belonging and community are so soaked up with nostalgia and utopianism that they are nearly useless as guides to the real possibilities of civic solidarity in modern society. Modern life has changed the possibilities of civic solidarity, and our language stumbles behind like an overburdened porter with a mountain of old cases' (1990: 138).

notions of a "welfare state" based on complete "equality of citizenship" no longer receive universal assent (or lip service). Against a background of recurring fiscal crises, "paying for services" has replaced "fair shares for all" as a current political slogan (cited in Hecló 1981: 383).

The above quotation, which Hecló points out, contrary to expectation, was a description of the situation at the end of the 1950s rather than as one would expect of more recent times, serves to illustrate that there is little agreement on what the ideals of the welfare state should be or how they should be achieved. Moreover standards of welfare are relative and linked to what is taken as the historical benchmark. Thus:

Modern welfare may not be generous by any standard other than a comparison with the nineteenth-century workhouse but it does attempt to satisfy a wide range of basic needs ... (Ignatieff 1990: 10).

1.2.2 Approaches to Welfare

Approaches to welfare essentially focus on the balance of welfare provision among the different providers. A minimal role for the state, with the fulfilment of welfare needs largely left to the private sphere, characterises the residual system of welfare provision. According to the residualist view, private provision is the 'normal' system for the supply of welfare and only when this system fails does the state step in. Self-reliance and individual responsibility are the key principles of the residualist or minimalist approach. Rigorous means-testing determines eligibility to public social services and stigma often accompanies their receipt. This approach is also described as a needs based welfare state model because the state is expected to only concern itself with those in need.⁴

⁴ Yet the question is begged on the entire notion of what constitutes needs, how they are to be defined and whether there is entitlement to needs as a matter of right. The question is a thorny one which Ignatieff (1990) highlights well. 'If we often deceive ourselves about what we need, we are likely to be deceived about what strangers need. There are few presumptions in human relations more dangerous than the idea that one knows what another human being needs better than they do themselves. In politics, this presumption is a warrant to ignore democratic preferences and to trample on freedom' (Ignatieff 1990: 11). Furthermore as Ignatieff insightfully points out: 'In many Western welfare states, entitlements are still perceived both by the giver and the receiver, as gifts. To be in need, to be in receipt of welfare, is still understood as a source of shame. Needs may

By contrast, the institutional approach to welfare holds social welfare institutions and services as 'the 'first line' functions of modern industrial society' (Wilensky and Lebeaux 1965: 138). Citizenship provides entitlement or right to these publicly provided services. Welfare state 'laggards' are often identified as those societies that tend to the residualist end of the spectrum and have lower levels of social spending, for example the United States, while 'leaders' are those more to the institutional end, with Sweden held up as a model.

Taking into account occupational welfare, it could be that some welfare states that appear to be laggards are in fact not so. Occupational welfare which is welfare received on account of one's job and productivity includes such benefits as employer pension contributions, health insurance, concessionary mortgage finance and a variety of other fringe benefits. In some countries like Japan, while the role of the family in welfare provision may be important, occupational welfare may also be quite high. On the basis of Esping-Andersen's de-commodification study which is based on 1980 data, Japan may thus be described as a 'Conservative Welfare State' in between 'Social Democratic Welfare States', such as Sweden and Norway where the state is accorded a major role in welfare provision and the 'Reluctant Welfare States' where state welfare is an adjunct to market provision. New Zealand and Australia fall in the 'reluctant' category (Shirley 1994).

The Ware and Goodin (1990) categorisation distinguishes a further model of welfare provision which is insurance or contributions based. The pure form of this model has contributions from employers, individuals or family being the only determinant of the receipt of welfare. Those who have breaks in their contributions, often women, or who are unable to contribute or insure against misfortune, are therefore severely disadvantaged under this system.

National values may play a part in determining the respective roles of the public and private sectors in welfare. King (1973) asserts that

make rights in law, but they do not necessarily make rights in the minds of strangers at my door' (1990: 16).

governments, whatever their political leanings, recognise and respect the prevailing national values consensus. The Japanese and several other Asian nations place greater emphasis on group and family values than Western welfare states and consequently the family plays a major role particularly in some areas of welfare provision, for instance the care and maintenance of the elderly. The national values approach while probably simplistic, does have the intuitive appeal in explaining the current differences in welfare provision between the East Asian economies and countries with a more institutional approach to welfare. Paternalistic relations and the family play a big part in East Asia's cultural heritage in Confucianism.

Jones contends that Japan and the East Asian Newly Industrialised Countries of Singapore, Hong Kong, Singapore, South Korea and Taiwan, 'make up an 'own brand' of welfare states' which is distinct from the Western welfare state typologies (1993: 199). Categorising the approach of these countries to welfare provision as 'Confucian welfare states', Jones points out that:

Social security - in the fullest sense of the term - is seen as dependent in the last resort not on governments but on families and communities; on voluntary action, both formal and informal; on traditions revived and reinforced in many respects by Western example. Aside from the appetite for education, the attachment to non-statutory social welfare constitutes the most striking common Confucian welfare state characteristic (1993: 213).

The successful East Asian economies demonstrate that both rapid and sustained economic growth and declining income inequality and reduced poverty can be achieved with a welfare mix which emphasises private provision.

There are other explanations of the public-private divide. For example, Rose (1985) favours a program approach where allocation is based on comparative advantage and disadvantage in the provision of welfare goods and services that have intrinsic differences. The family for instance has a comparative advantage caring for the young and a comparative disadvantage in providing higher levels of education.

The Neoclassical Revival in economic thinking, supported by Monetarist and Public Choice theorists, or what is often collectively described as the 'New Right' or neo-liberal thinking, together with the discrediting of Marxism upon the collapse of the Soviet and East European socialism, have wrought a crucial change in beliefs on the appropriate contribution of the state in the welfare mix of many countries. Technological change particularly in the communications sphere and increasing global integration, has reinforced the ideological push for a greater role for the market and a reduced role for the state. Papadakis and Taylor-Gooby believe two factors may explain the current move towards acceptance of a substantial private sector. They are:

first, the long term shift in social ethos away from collectivism which nourished the welfare state and towards greater valuation of the private in all spheres of social life (leisure, family, work and politics); second, the development of a new consensus in social policy theory which centres on radical disenchantment with state welfare... Both imply that the long march of the welfare state has now crossed a watershed and will require the development of a new range of social policy theories to command its new environment (1987: 14,15).

1.2.3 Family Welfare - A Simple Model

Total welfare of a family⁵ comprises welfare provided and obtained from the market, state and non-market sources. Welfare from the non-market sector includes welfare produced within the family through use of unpaid labour for example caring for family members or subsistence gardening, and welfare provided by voluntary agencies or community organisations. The non-market sector thus includes what Davis (1972) described as the domestic sub-economy in the four differentiated sub-economies of the British economy. The domestic economy is governed by

⁵ The term family is a 'highly imprecise term even in those societies where it is a used and taken for granted reality' (Franklin 1995: 234). In this section family is taken to mean members of a group where contributions in monetary or non-monetary forms from one or more of its members are used to procure the well-being of the group as a whole. Thus a 'family' could include the nuclear family comprising parents and their dependent children, or a non-nuclear family with a sole parent and dependent children or the more extended family or whanau where for instance some family members contribute by providing childcare or care of the aged or in a variety of other non-monetary ways to enable the welfare of members.

family law, customs and expectations and includes all activities not mediated by the market. This economy is distinct from the what Davis terms the market economy which is governed by laws of commercial exchange, employment, labour relations and suchlike.⁶ The non-market sector also includes the non-profit voluntary or third sector.

Each welfare sector has a distinct basis of provision. Power, compulsion and taxation lies at the core of state provided welfare, whereas purchasing power is the determinant of access to welfare sourced through the market. Profit is an important consideration in market transactions. Kinship ties and responsibilities underlie family welfare commitments. Voluntary agencies, in so far as they must fund their operations, rely on private donations and government grants. Altruism and gifting as well as taxation, thus forms the basis of provision from this sector.

Total family welfare or well-being can be expressed by definition as the total welfare of the family unit (W_f) which equals the sum of welfare procured through market means (w_m), welfare provided by the state (w_s) and welfare from the non-market sector (w_n):

$$W_f = w_m + w_s + w_n$$

Market sourced welfare (w_m) depends on the disposable income of the family and this is predominantly dependent on employment status of family members. Disposable income of the family is also of course affected by the level of taxation. Since taxation is the foundation for state welfare provision, taxation policy is vitally linked to both w_s and w_m .

⁶ The other two Davis sub-economies are the redistributive economy governed by the laws of taxation and welfare and state expenditure; and the gift economy governed by rules of reciprocity and includes gift and present giving. The basic flaw of the Davis four sector dichotomisation is that the voluntary sector does not fit in. This fifth sector is governed by notions of charity and altruism though increasingly subject to commercial principles and accountability.

A withdrawal of welfare from one of the multiple sources of provision if exactly compensated for by an increase from an alternative source will, on the basis of the above equation, maintain the level of family welfare. Ultimately, maintenance of total welfare will thus depend on the family's ability to substitute between the different sources.

A reduction in income maintenance by the government, as for example the 1991 social security benefit reductions in New Zealand, particularly in so far as they were justified by the increased incentive to work argument, presupposes in terms of the simple family welfare model, that the family will come to rely more on market participation to secure welfare. Circumstances may, however, constrain an individual family's ability to reorder their welfare mix more toward the market. Specific family forms, for instance sole parent families with young children in the absence of appropriate childcare, are less able to make independent choices between involvement in the paid workforce and state welfare dependence and therefore may be unable to substitute between market and state sources of welfare. The lack of appropriate skills, commitments to the care of family members, the inadequacy and cost of childcare facilities, the depressed state of job markets are some of the factors which may prevent increased recourse to the market for securing welfare. Instead a family faced with a reduction in state provided welfare may turn to the voluntary sector in order to maintain total welfare or alternatively, could be forced to endure a decline in welfare. The increased reliance of New Zealanders on food banks and support from non-government welfare agencies after the 1991 social welfare benefit cuts, for example, is thus evidence of the lesser ability of some families to substitute between the market and state sectors for welfare. It is nevertheless also evidence of the possibility of substitutability. This greater movement to the voluntary sector and extent of substitutability is however limited. Increased demands place increased strain on voluntary agencies. Donations and gifting which form the chief basis for provision from these agencies are quickly exhaustible resources and may also face competing claims (for example, fund raising for overseas causes like the Rwanda Appeal in 1994, may lessen the amount of funds available for local charitable purposes).

A household can draw on its own capacity to maintain and increase welfare. Non-market production by the household is the most flexible component of the welfare mix. The estimated value of unpaid work in New Zealand is placed at between 30 to 68% of GDP and about 90% of this work is performed in the home (Statistics New Zealand 1994a: 121). This is an indication of the potential of families to adapt to reduced welfare from other sectors by increasing their own efforts. For example, a family may use its own members to help with childcare or grow its own vegetables to supply nutrition. This can, however, only happen if the particular family has members willing and able to assist with childcare or the land and other inputs to grow the vegetables are available. Ultimately, a family's access to resources thus determines not only its ability to tap into its own potential for self help but also effectively substitute between the state and market sectors in order to increase or keep its existing level of total welfare intact. Creating and strengthening the supportive infrastructures of family welfare such as direct employment creation, skills acquisition and education, income adequacy, housing, health care and parenting support, so that families have the capability to re-order the composition of their welfare mix away from the state, is vital. This necessarily involves partnership between all the welfare providers: state, families, businesses, worker organisations, community groups and traditional (in New Zealand's case Maori) welfare delivery systems. This partnership concept in relation to employment creation, is highlighted in chapter seven of this thesis.

As a conclusion to this section, it could be mentioned that since a large burden of family care-giving falls upon women,

the issue of social justice for women, then must always temper expectations about the extensiveness of the family's role in promoting well-being, at least until there is a fairer sharing of responsibilities among family members (Royal Commission on Social Policy 1988: 783).

1.2.4 Social and Demographic Change

Social and demographic changes, contemporary family forms and the transience of many relationships have lessened the ability of many families to adapt to a changed welfare mix. This section discusses this in the New Zealand context.

Over the last twenty-five years, rapid and significant social change has taken place in New Zealand. For instance, falling fertility levels have reduced family size and hence the number of potential caregivers in the family. By 1980, the total fertility rate had fallen below replacement level, to 2.1 from a peak of 4.3 births per woman in 1961. The average number of children per family fell below 2 for the first time, to 1.97 in 1991. Families with one child now exceed those with two. While twenty years ago two thirds of all families comprised couple plus children households, by 1991, only 48% of all families were in this category. Today, what was once the 'typical' family form of a legally-married couple with at least one dependent child, represents only 35% of all families. The sole parent family is now the fastest growing family form, making up 17% of all families. In 1991, one in four families with children were sole parent families compared with one in six in 1981 (Statistics New Zealand, 1994: 39-40).

Increased participation by women in the labour market also reduces the ability and potential to provide care in a family setting though simultaneously also providing the potential to increase family welfare through an increase in w_m in terms of the model in the preceding section. In New Zealand, the gap between male and female participation rates has narrowed steadily since 1961. In the June 1996 quarter, the all female labour force participation rate was 57.4% (the highest since the start of the quarterly household labour force survey in December 1985) compared to the male participation rate 74.2%. Interestingly, as the female participation rate has continued to climb, the male participation rate has continued to decline, falling from 79.1% in December 1985 quarter to a low of 72.3% in September 1992,

though currently at 74.2%. (Statistics New Zealand INFOS series HLFQ.S3).

Responsibilities for caring for the young strongly influences this participation rate. Thus the participation rates of women with dependent children, are closely related to the age of the youngest child. In two parent families with children under five years, while the participation rate of mothers is below 50%, this increases to over 70% once the youngest child reaches school age. Labour force participation rates of mothers in single parent families is by contrast substantially lower and educational background probably explains this divergence (Rochford 1993).

As the number of potential caregivers falls, however, the ageing of the population and increased life expectancy, implies a rise in the number of frail elderly in need of care. In the decade to 1991, the elderly dependency ratio rose from 23 to 25 per 100 of population in the working age between 15 and 59 years. After the year 2001, as the baby boom cohort reaches old age, substantial changes in aged dependency ratios are projected to take place. These projections are 28 persons over 60 by the year 2006 and 46 by 2031 for every 100 in the 15 to 59 age group (Department of Social Welfare 1993:3). As New Zealanders are further delaying marriage and childbearing, there is also now the increased likelihood of parents having to bear the brunt of caring for dependent children as well as elderly relatives at the same time.

The profound changes that have occurred in family patterns in New Zealand over the last 25 years have resulted in a kaleidoscope of family forms which challenges both public and private systems of welfare provision. As stressed earlier in this section the nuclear two-parent family is no longer 'typical', as one-parent families have continued to increase in number. Increasing levels of separation and divorce since 1971, have led to 53% of sole parents being divorced or separated. Nevertheless, sole parents who have never married are the single parent group with the highest increase and account for over half of the total rise in one-parent families over the period 1986-1991.

The Christchurch health and development study which researched the lives of 1265 children over a period of sixteen years, showed that 72% of children in single parent families subsequently enter a two-parent family and of these 60% will experience subsequent family breakdown (Fergusson 1993). This highlights the instability of sole parent and reconstituted families. The question is also begged as to the strength and resilience of ties in such families and willingness therefore of members to attempt to fill in gaps left by any state withdrawal of welfare provision. Confusion on family allegiances when multiplicity of family groupings are possible over the lifetime of an individual, further complicates matters.

The expectation that statutory rather than family provision should be made especially for the elderly, disabled, handicapped and the majority of those with health care, education and housing needs, was reinforced as the welfare state progressed. Even in the 1950s and 1960s, as observed by Olssen and Levesque, New Zealand's European/Pakeha family was expected by 'fewer and fewer people, even among the traditionalists to look after the aged and the infirm' (1978:19). The welfare state restructuring that has occurred since 1984 however, places greater responsibilities on families to secure their own well-being and thus involves a reversal of expectations that have built up over at least three decades. The push for re-acceptance of greater family responsibility for well-being also comes at a time when economic, social and demographic changes impose heavy burdens upon family life.

1.3 Chapter Outline

The introductory chapter provides an overview of the study and describes the methodology adopted. It also examines the dimensions of welfare provision, with changing social and demographic parameters which necessarily impact on welfare provision being delineated as well. A simple model of family welfare, is put forward at the outset in order to provide a basic framework for highlighting the fact that unless the

progressive withdrawal of state provision of welfare that results from the retrenchment of the welfare state, is compensated for by an ability to secure greater amounts of welfare sourced from the market, a decline in total family welfare will result.

Chapters in the main body of the thesis are organised into three parts.

Part I is concerned with global change and comprises chapter two. This chapter provides an overall explanation and underlying logic for the development and subsequent necessity for restructuring of the welfare state. The welfare state is viewed within the context of the emergence of a new phase of capitalist development and the incompatibility of the Keynesian welfare state in this new phase is emphasised. Thus the need for the emergence of alternative state forms, in line with the demands of the global economy, is discussed. This chapter provides the global perspective to the changes that have taken place in New Zealand's welfare state.

Chapters three, four and five, form Part II of the thesis. This part deals with change at the national level in order to highlight the key aspects and implications of changed welfare provision in New Zealand.

In chapter three, the foundations of New Zealand's welfare state are examined. The study draws attention to the vital role of wage fixing mechanisms in the shaping of the welfare state. The nature of state-capital-labour relationships are emphasised in this connection and the role of the 'family wage' in shaping social policies examined. State intervention to create the infrastructure and conditions conducive to wage regulation together with full employment, are shown to have underpinned the rise of the welfare state. It is argued that the collapse of the dual foundations of full employment and the family wage and the changed nature and approach to welfare provision, has led to the demise of New Zealand's 'welfare state'. It is contended that the welfare state has transformed into a 'well-being enabling state'. Features of this new state form, as well as the changing state-capital-labour interface, are highlighted.

Chapter four examines the features of the labour market noting the movement from full employment to unemployment, the subsequent phases of unemployment and the ethnic unemployment problem. Employment policies that enable or induce the procurement of well-being through market means are the chief focus of the chapter. The validity of the economic theoretical underpinnings of these policies is also discussed. Thus for example, search effectiveness and mismatch in terms of a shift of the UV curve (which shows the relationship between unemployment and vacancies), is examined. The general direction of policy changes are shown as designed to enhance labour market adjustment and encourage participation in the labour market such that households may provide for their own well-being. These changes form a crucial aspect of the well-being enabling state.

Chapter five addresses the importance of human capital in adjusting to the new technological era and assesses the education and training policies of the well-being enabling state. The lower level of human capital of ethnic minority groups and state policies for closing the ethnic education gap are considered. Broadening the definition of human capital to include embodied cultural capital is suggested as a solution to mitigate the impact of currently lower formal educational levels of ethnic minorities.

It is a foregone conclusion that without adequate employment creation the substitution of private provision for state provision of welfare will not be aided. Part III of the thesis therefore looks at employment creation as crucial to the well-being enabling process. It comprises chapters six and seven. Chapter six focuses on entrepreneurship as a prerequisite for employment creation; and chapter seven stresses the importance of employment creation at the local level. Deliberate action for employment creation at the grass-roots level is viewed as a sine qua non for the mitigation of current ethnic unemployment differentials in New Zealand .

Chapter six serves to emphasise the crucial role that the supply of entrepreneurship plays in employment creation. The neo-Schumpeterian ideas on the transition phase of capitalism, are extended to provide analysis of the role of the entrepreneur as an agent of change in the 1990s and beyond. New concepts of 'community entrepreneurship', and 'market-leading' and 'market-following' responses are put forward. A parallel is drawn between Schumpeter's concepts of 'adaptive response' and 'creative response' and the latter two concepts (Schumpeter 1991: 411). The concept of market-leading community entrepreneurship is developed to close the gap in the supply of entrepreneurship at the local level. State policies and programmes for stimulating self employment as part of the strategy to develop an enterprise culture and as a response to unemployment are also covered.

The penultimate chapter provides an insight into the need for employment creation at the local level of smaller communities. It uses a case study to examine the usefulness of market-leading, community based employment creation in harnessing cultural capital and overcoming the lack of conventionally defined human capital as an obstacle to the immediate labour market participation of ethnic minorities. The partnership concept in relation to employment creation is also a theme of this chapter.

The concluding chapter draws the threads of the study together, makes some policy recommendations, points to areas for further research and provides a concluding comment.

PART I

GLOBAL CHANGE

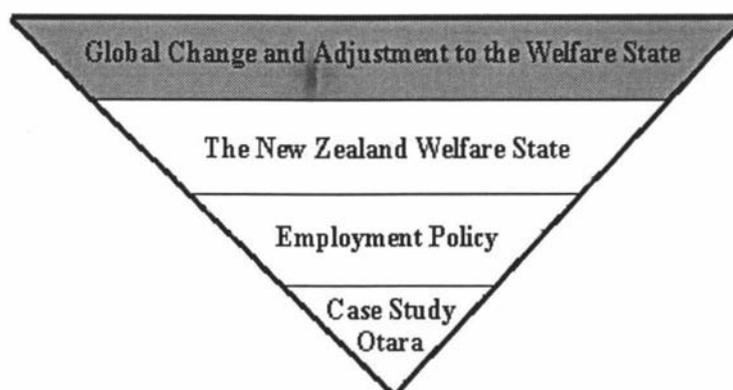
Evolution of the Welfare State

2.1 Chapter Introduction

This chapter comprises Part 1 in the organisation of chapters in the thesis and deals with the impact of global change on the evolution of the welfare state. It provides the first tier of the multi level analysis of this study, as shown by the shaded area of figure 2.1 below.

FIGURE 2.1

The Global Focus of the Multi-level Analysis



The purpose of this chapter is to show the welfare state as an integral component of a particular phase of capitalist development. The restructuring of national welfare states is argued to be underpinned by change at an overarching global level.

This chapter highlights the contention of a movement of capitalist economies to a new phase of capitalist development and a new socio-economic era. It includes an examination of the changes in both the organisation of enterprises and the organisation of work, as well as the international division of labour, which characterise this new era, since they are all important to an overall understanding of the changes

wrought in welfare states.

An understanding of the post-Fordist debate and political economy strands of the post-industrial society discourse, is necessary in order to perceive the roots of welfare state restructuring at national levels. Such an understanding constitutes not as Taylor-Gooby (1994) is prone to decry, 'a great leap backwards' in the analysis of social policy, but rather as Penna and O'Brien (1996) would see as 'a small step forwards', in presenting an overall view of welfare state changes in national economies. As Burrows and Loader succinctly write:

...(if) Fordism is represented by a homology between mass production, mass consumption, modernist cultural forms and the mass provision of welfare then post-Fordism is characterised by an emerging coalition between flexible production, differentiated and segmented consumption patterns, postmodernist cultural forms and a restructured welfare state (1994: 1).

2.2 Phases of Capitalist Development

A large body of literature maintains that capitalism is moving from one dominant phase to a new phase based on very different economic, societal and ideological principles, with a putative transition between each distinct phase when elements which characterise the new epoch may develop. For example:

It seems that capitalism is at a crossroads in its historical development signalling the emergence of forces - technological, market, social and institutional - that will be very different from those which dominated the economy after the Second World War. Though not uncontroversial there is an emerging consensus in the social sciences that the period since the mid-1970s represents a transition from one distinct phase of capitalist development to a new phase (Amin 1994: 1).

Ours is an epoch in which it is almost universally agreed that a profound realignment, if not revolution, is underway in our economy and society... we are leaving behind us a social order that was pretty much understood, and entering another the contours of which can only be dimly recognised (Esping-Andersen 1990: 222).

Early in the 1970s, in the conclusion of his important work, *The Coming of the Post-industrial Society*, Bell asserted that the new era produces crucial structural changes in society:

The post-industrial society is primarily a change in the character of social structure...in the economic sector, a shift from manufacturing to services; in technology, the centrality of the new science-based industries: in sociological terms, it is the rise of the new technological elites and the advent of a new principle of stratification. More generally...a changeover from a goods-producing society to an information or knowledge society (1974: 487).

A variety of labels, such as, fifth Kondratiev cycle or long wave, post-Fordism, post-industrial, post-modernist, post-materialist, are used to describe the new era. This study will favour the terms post-Fordism and fifth Kondratiev cycle.

The sustained prosperity of the developed capitalist countries during the post-war period to around the mid 1970s, has been described as the 'golden age of capitalism' (see for example Lipietz 1992: 1) and the term Fordism, derived from the techniques of production pioneered in the American auto assembly factories of Henry Ford in the early 1900s, is used to describe the dominant post-war 'hegemonic' development model of advanced capitalist economies of this age. The United States (US) was the leader in productivity, hence the US hegemony is also often referred to as characterising the Fordist era. Since Keynesian economics was the dominant economic paradigm of the time, 'Fordism-Keynesianism' is used to describe a regime of accumulation which constitutes a particular phase of capitalist development and the 'Keynesian welfare state' is viewed as an integral component of this phase.

From the mid 1970s, significant changes to the way capitalism functions in both the global and national spheres, have been widely observed. Even those who adopt a longer period view of capitalist development, confirm that world capitalism is currently entering a new phase. For instance, Arrighi points to 'the long twentieth century' as the fourth (US) systemic cycle of accumulation and to the 'signal crisis' of its

dominant US regime beginning around 1970. At this time capital is switched in increasing quantities,

from trade and production to financial intermediation and speculation. The switch is the expression of a “crisis” in the sense that it marks a “turning point”, a “crucial time of decision” (Arrighi 1994: 215).

Whatever the interpretation followed therefore, there appears to be a general acceptance that contemporary capitalism represents a firm break with the earlier period. The jury is still out, however, on what regime of accumulation and mode of regulation will replace Fordism-Keynesianism. Lash and Urry (1987) for instance, refer to the end of ‘organised capitalism’ and the emergence of ‘disorganised capitalism’, with regulation of national economies by government officials, managerial hierarchies and bureaucratic organisation that characterise highly structured or organised capitalism, threatened by spatial and functional decentralisation of corporate power and leading to irreparable ‘disorganisation’ in the processes of capital accumulation. Harvey (1989) by contrast argues that a regime of ‘flexible accumulation’ is emerging. The rigidities of the Fordism and Keynesianism mode have been unable to cope with the inherent contradictions of capitalism and underlying these rigidities,

lay a rather unwieldy and seemingly fixed configuration of political power and reciprocal relations that bound big labour, big capital, and big governments into what increasingly appeared as a dysfunctional embrace of such narrowly defined vested interests as to undermine rather than secure capital accumulation (Harvey 1989: 142).

2.2.1 Long Cycles

Fluctuations characterise the path of economic growth. These fluctuations can be episodic and due to factors that have no regular pattern or they may be cyclic, demonstrating a regular pattern. A well known analysis of shorter economic cycles of around 15-25 years in duration is that of the Kuznets cycle (Kuznets 1930). Cycles of longer term duration of around 45-60 years, were first chiefly associated with the name of Kondratiev (also often written as Kondratieff) and are

referred to as 'Kondratievs' (so named by Schumpeter) or Long Waves.

Kondratiev, working in Moscow in the 1920s, used supporting statistical evidence to argue his long wave theory. Credible statistics on the general level of prices backed up the theory but output and income statistics at that time were less reliable. Research undertaken almost 60 years later by Van Duijn (1983), however, showed that economic growth rates in the world economy after 1866, conformed to:

a near-perfect long-wave pattern' although prices have been 'misbehaving' since the 1930s (cited in Tylecote 1991: 11).

Table 2.1 illustrates the long wave pattern exhibited in the economic growth of key advanced economies. It shows that the 'golden age' from 1948-73 could be interpreted as the long-wave upswing of the fourth Kondratiev. The rapid economic growth rates of the 1950s have so far been unparalleled in the world economy. Economic performance of the advanced capitalist countries, however, declined significantly after 1973, with average annual growth of real GDP falling from 4.9 to 2.6 in the period 1973-1989. Table 2.2 gives world GDP growth calculated as arithmetic averages for 16 countries - Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, UK, USA. The significant fall in growth rates in the 1973-1989 period, appears to indicate that the world economy was in the downswing of the fourth Kondratiev cycle.

Although opinion differs on the presence of definite regular cycles in economic activity, it appears to be generally accepted that capitalism is entering or has entered a new era. Maddison, for example, argues that although he can find:

no convincing evidence in the work of Kondratieff, Kuznets, and Schumpeter to support the notion of regular or systematic long waves in economic life, there have nevertheless been significant changes in the momentum of capitalist development. In the 170 years since 1820 one can identify separate phases which have meaningful coherence in spite of wide variation in individual country performance within each of them (1991: 111-12).

TABLE 2.1

**Growth Rates of Industrial Production
in van Duijn's Long Wave Upswings and Downswings**

	United Kingdom		United States		Germany	
<u>2nd Kondratiev</u>						
upswing	1845-1873	3.0	1864-1873	6.2	1850-1872	4.3
downswing	1873-1890	1.7	1873-1895	4.7	1872-1890	2.9
<u>3rd Kondratiev</u>						
upswing	1890-1913	2.0	1895-1913	5.3	1890-1913	4.1
	1920-1929	2.8	1920-1929	4.8	1920-1929	
downswing	1929-1948	2.1	1929-1948	3.1	1929-1948	
<u>4th Kondratiev</u>						
upswing	1948-1973	3.2	1948-1973	4.7	1948-1973	9.1
	France		Italy		Sweden	
<u>2nd Kondratiev</u>						
upswing	1847-1872	1.7				
downswing	1872-1890	1.3	1873-1890	0.9	1870-1894	3.1
<u>3rd Kondratiev</u>						
upswing	1890-1913	2.5	1890-1913	3.0	1894-1913	3.5
	1920-1929	8.1	1920-1929	4.8	1920-1929	4.6
downswing	1929-1948	-0.9	1929-1948	0.5	1929-1948	4.4
<u>4th Kondratiev</u>						
upswing	1948-1973	6.1	1948-1973	7.9	1948-1973	4.7

Source: Tylecote 1991: Table 1.2

TABLE 2.2

Indicators of Macroeconomic Performance, 1870-1989

	1870-1950	1950-1973	1973-1989
Annual average growth of GDP	2.3	4.9	2.6
Annual rise in consumer prices	0.1	4.1	7.3

Source: Maddison 1991: Table 6.1

2.2.2 Transition Models

It is possible to distinguish three broad approaches which seek to provide a theoretical framework to explain the organisational and other changes that characterise the transition to a new phase of capitalist development and the establishment of a new long wave of sustained economic growth. These are the regulation approach, the neo-Schumpeterian approach and the flexible specialisation approach (Amin 1994). While it must be stressed that these different approaches conflate, they may be kept separate so that the literature may be distinguished and the different issues they highlight drawn attention to.

The regulation approach proffers a theoretical framework to explain the prolonged economic growth of the developed capitalist countries during the post-war period to around the mid 1970s and the subsequent 'crisis' which emerged. Amin (1994) identifies writings of political economists Aglietta, Coriat, Andre and Delorme, Lipietz, Boyer and Mistral as typical of the regulation approach.

Regulationists usually distinguish three core aspects of the Fordist model. Firstly, mass production and mechanisation in accordance with 'Taylorism' or the Taylorist system of scientific management, is postulated as the distinctive form of labour organisation or 'labour process model', technological or industrial paradigm. Taylorism describes the organisation of production and division of labour on the basis of separation between the mental and manual aspects of production. Thus the tasks of the organisers of the production process, such as engineers and managers, were distinct from the repetitive tasks of the semi-skilled manual workers performing one narrowly-defined operation on the assembly line. This enabled the production of complex manufactured products with the use of relatively unskilled labour unlike previous production processes which used skilled crafts people engaged in traditional craft occupations.

The second aspect is the 'regime of accumulation', which describes the mode of macroeconomic growth. It is:

the set of regularities at the level of the whole economy, enabling a more or less coherent process of capital accumulation (Nielsen 1991: 22).

Under Fordism this involves sustained growth based on mass production, rises in productivity accruing chiefly from economies of scale, increased real incomes to match rising productivity leading to increased demand and mass consumption, increased profitability with full utilisation of plant capacity and full employment.

Thirdly, the 'mode of regulation' or social and economic regulation involves the mechanisms including institutional structures, whereby the behaviour of individuals adjusts to the regime of accumulation. The separation of ownership and control in large corporations, social legislation like minimum wage laws and award wages, trade union activity and collective bargaining, progressive taxation and an advanced social security system, the money supply and credit policy are all facets of the mode of regulation. (Jessop 1991: 136-137, Lipietz 1992: 1-7). The functionality of the welfare state under the Fordist economic system (see for example Pfaller et al. 1991: 2), is also a distinctive feature, with different types of welfare state emerging in different national contexts. 'Keynesianism' is often used as the catch-all phrase for the mode of regulation. Interestingly, Lipietz argues that regulatory institutions arose out of national social pressures, and the theorising of a few like Beveridge in Great Britain and Pierre Masse or Bloch-Laine in France, 'within the wider context of a fierce world-wide contest with Fascist and Stalinist models' (1992: 9). This accordingly helps explain the differences in the regulatory mechanisms of different countries and why for example the social security system in the United States differed from that of Northern Europe.

A fourth dimension is often added to the model, which is described as 'a general pattern of social organisation ('societalisation') or 'societal paradigm' (Jessop 1991, Lipietz 1992). This involves:

the consumption of standardised mass commodities in nuclear family households and provision of standardised, collective goods and services by the bureaucratic state. The latter also has a key role in managing the conflicts between

capital and labour over both the individual and social wage. These latter features are clearly linked to the rise of Keynesian economic management and to the universalist welfare state but neither element is essential for the growth of Fordism (Jessop 1991: 137)

Fordism consolidated during the upswing of the fourth Kondratiev long wave from 1948-1973. With the slow down in productivity growth which began in the second half of the 1960s and subsequent economic recessions which developed since the mid 1970s, the Fordist system suffered a structural crisis, which has to be resolved, if a new era of stable economic growth and prosperity is to take hold. A succinct summary of the contributory factors of the crisis is provided by Nielsen:

Firstly, productivity gains decreased as a result of the social and technical limits of Fordism... Secondly, the expansion of mass production led to an increasing globalisation of economic flows which made national economic management increasingly difficult. Thirdly, Fordism led to growing social expenditure (the relative costs of collective consumption increased, because of the inapplicability of mass production methods in this area, leading to inflationary pressures and distributional conflicts). Fourthly, the consumption pattern had gradually changed towards a greater variety of use values (the demands are at odds with standardization, the basis of economies of scale, and cannot easily be satisfied with mass consumption) (1991: 24).

Like the regulationist approach, the neo-Schumpeterian analysis - the second group of transition models, examines capitalism from a historical systemic perspective and reaffirms the position taken by the regulationists on the periodisation of Fordism. What distinguishes this approach from others, however, is the importance assigned to technology in separating and sustaining long waves of world economic growth.

The neo-Schumpeterian approach is closely linked to the work of Freeman and Perez and their colleagues, working at some time or the other, at the Science Policy Research Institute at Sussex University (Perez 1983, 1985, 1986; Freeman and Perez 1988; Freeman 1988). It builds on the Schumpeterian contention that technical change and innovation lies at the heart of long waves in the world economy.

In *The Theory of Economic Development*, first published in German in 1911, Schumpeter (1961) took up Kondratiev's idea that the long waves were related to inventions and innovations. Schumpeter distinguished between structural economic change or 'development' in his terminology, and economic growth. His process of 'creative destruction' causing development, involved waves of innovation in different industries in different periods. Historically, creative destruction is clustered in a few activities during any one period of time. Basic innovations like the steam engine and railways also lead to a series of secondary innovations. All these activities would yield higher entrepreneurial profit and in today's terminology, would be competitive and can launch a long wave. Entrepreneurial innovation comes in 'swarms', gathers momentum, is imitated and is then followed by stagnation until entrepreneurs emerge and a new series of innovations starts a new round of technical progress. Capitalist economies thus move through cycles or waves.

The neo-Schumpeterian analysis, too, takes up the idea of an interrelated set of basic and secondary innovations and introduces the notion of 'new technology systems' (Freeman et al. 1982).

Thus we are interested in what we shall call 'new technology systems' rather than haphazard bunches of discrete 'basic innovations'. From this standpoint the 'clusters' of innovations are associated with a technological web, with the growth of new industries and services involving distinct new groupings of firms with their own 'subculture' and distinct technology, and with new patterns of consumer behaviour (Freeman et al. 1982: 67-8).

The concept of 'technological styles', put forward by Carlota Perez (1983), further refines the above ideas and broadens the regulationist analysis of a changing regime of accumulation and the need for a new mode of regulation.

A technological style is:

a sort of paradigm for the most efficient organisation of production, i.e. the main form and direction along which productivity growth takes place within and across firms, industries and countries. The particular historical form of

such a paradigm would evolve out of key technological developments, which result in substantial change in the relative cost structure facing industry and which at the same time, open a wide range of new opportunities for taking advantage of this particular evolution (Perez 1983: 361).

A new style is:

grounded on the introduction of a cluster or constellation of interrelated innovations both technical and managerial which lead to the attainment of a general level of total factor or physical productivity clearly superior to what was 'normal' with the previous technological style (Perez 1986: 32).

The low prices of the key factors of production - steel, electricity and petroleum, provided the prerequisite of 'substantial change in the relative cost structure' for the new Fordist style. Today, however, developments in microelectronics, fibre optics, software engineering, communications, computer and laser technology, collectively referred to as Information and Communication Technology (ICT) are all the harbinger of a new technology style. Tylecote (1991) adds new biotechnological developments to talk of a 'microelectronics and biotechnology style', compared with the 'steel and electricity style' of the previous phase. A key feature of the technology style of the old Fordist system was that it was energy intensive. By contrast the new style is information and knowledge intensive.

A rapidly changing production system, or what Perez describes as the 'techno-economic subsystem' goes hand-in-hand with the new technology style. The techno-economic system, has to coexist with the 'socio-institutional framework'. This framework is neo-Schumpeterian terminology for what the regulationists refer to as the mode of regulation. This framework has a 'high degree of natural inertia' and so will be 'mismatched' with the new technology style and leads to crisis which:

forces the restructuring of the socio-institutional framework with innovations along lines that are complementary to the newly attained technological style (Perez 1983: 361).

As a new socio-institutional framework to suit the new technology style

emerges, the crisis which is an obstacle to economic growth dissipates and long-wave upswing follows.

Tylecote differentiates between types of crises of mismatch between the socio-institutional framework and technology style. He argues there are three types of crises: 'depression crises' e.g. the 1930s; 'upswing crisis' and 'mixed crisis'. When the old framework allows economic expansion to proceed, economic change will cause a socio-political mismatch and a crisis which is labelled an upswing crisis emerges. If on the other hand the new style is only partially blocked by the old framework, when the crisis does emerge it is of mixed socio-political and economic origins (Tylecote 1991: 22-24).

Restructuring of the whole economy takes place when a new technology style is diffused. According to Tylecote (1991: 37), this involves:

- new methods of organisation
- new skill mix
- new product mix with intensive use of new key factors of production
- technological innovation to economise on more expensive factors and use cheaper key factors more intensively
- changes in the location of production due to changed comparative advantage patterns arising from the new relative cost structures
- new infrastructure requirements of the new style necessitating high levels of investment in this infrastructure

The emphasis on the importance of technological progress, the diffusion of new technologies and adaptation of the economic and social system and its institutions to these new technologies, are thus the key differences between the neo-Schumpeterian and regulationist approach.

The chief proponents of the third approach - the flexible specialisation approach, are American sociologists Piore, Sabel, Hirst and Zeitlin (Piore 1980; Piore and Sabel 1984; Hirst and Zeitlin 1991). At the core of this approach is the contention that there is industrial dualism with two

opposites of industrial production: mass production and flexible specialisation, having coexisted since the nineteenth century. Occasionally in history, there is an 'industrial divide' when there is a choice between these two industrial paradigms (Fiore and Sabel 1984). Strategic political, industry and other institutional decisions will result in one of the two being dominant, adopted as the internationally accepted standard and diffused. This does not, however, imply that the other paradigm disappears.

In their book, *The Second Industrial Divide*, Fiore and Sabel (1984), identify the first industrial divide at the turn of the twentieth century, when the emergence of mass production techniques began to constrain the growth of craft production in some regions of Europe. Subsequently, in the 1920s and 1930s, mass production technology dominated in the leader industries and countries and consolidated with the institution of Keynesian economic policies which aimed at sustaining and stabilising aggregate demand. The second industrial divide commenced when the world economy moved into recession in the early 1970s. Once again there is a choice between the two alternative forms of industrial production.

The flexible specialisation approach is also said to adopt a neo-Smithian perspective (Elam 1994: 50), since the division of labour lies at the heart of this dualistic analysis. Mass production is based on a heightened division of labour. Going back to what he calls Adam Smith's theory of technology, Fiore points out that according to Smith, productivity growth is dependent upon the division labour, which in turn is conditioned by the size of the market (Fiore 1980: 59).

If the market for a product is small, however, this would limit the division of labour. Fiore develops this Smithian idea by delineating three further constraining factors to the extension of the division of labour: the degree of standardisation, stability, and the uncertainty of market demand (Fiore 1980: 61). Standardisation allows model variation with the use of standardised parts and thus enables further division of labour. Customisation or non standardised production by contrast, deters the

intensification of the division of labour. Instability and uncertainty of demand acts to limit the size of the market and the division of labour, particularly since it discourages both inventory investment and investment in fixed capital. Some product markets, such as high fashion garments, are inherently non-standardised, unstable and uncertain. If this became the market norm rather than the exception, then the era of mass production would have reached a 'branching-point' (Sabel and Zeitlin 1985: 162) or a 'second industrial divide' (Piore and Sabel 1984), and flexible specialisation emerged triumphant as the dominant industrial paradigm.

When flexible specialisation dominates, further extensions to the division of labour no longer yield increases in productivity; there is 'saturation' and 'break-up' of mass markets and wants are more refined and tastes more diverse (Piore and Sabel 1984: 184, 189). Although diversity and variety were not sacrificed during the mass production era, and Piore and Sabel are criticised for giving this impression (Houndshell 1984, Williams et al. 1987), it is nevertheless true that today's flexibility of manufacturing involves newer dimensions. The *Economist*, in a special feature supplement on the 'factory of the future', vividly describes the new production system:

For the first time in three-quarters of a century the factory is being reinvented from scratch. Long narrow production lines with men crawling all over them - a feature of manufacturing everywhere since the early days of the car-making dynasties - are being ripped apart and replaced with clusters of all-purpose machines huddled in cells run by computers and served by nimble fingered robots. The whole shape of the industrial landscape is changing in the process. The name of the game in manufacturing has become not simply quality or low cost but 'flexibility' - the quest to give customer his or her personalised design, but with the cheapness and availability of mass-produced items. Savile Row at High Street prices. In short, nothing less than a whole new style of manufacturing is in the process of being defined (30 May, 1987).

2.2.3 The Keynesian Welfare State

The progression of the Keynesian welfare state accompanied the Fordist

mode of production and growth. It was part of the mode of regulation or the socio-institutional framework of the post-war 'golden age' in advanced capitalist economies. The Keynesian welfare state was characterised by policy commitment to the full employment of resources, seemingly made possible by Keynesian economic management. The San Francisco United Nations Charter drawn up at the close of the Second World War, had included the clause under Article 55 that:

the United Nations shall promote: higher standards of living, full employment and conditions of social progress and development.

The enactment of the Employment Act of 1945 which established a Department of National Employment Service charged with promotion and maintenance of full employment, was New Zealand's response to the Charter. Even in West Germany, where much emphasis was placed on price stability, the goal of full employment was explicitly declared in the Stabilisation Law of 1967, at quasi-constitutional level.

The progression of the modern welfare state may be viewed as a corollary of Keynesian economics.¹ Keynesian thought underpinned the social alliance and national consensus on economic and social goals and policies that emerged in the post-war period.

An important aspect of the Keynesian welfare state was the unity of the Fordist capital-labour relation that prevailed, though the one Fordist capital-labour relation model had many national brands. The typical Fordist compromise comprised four major strands of capital-labour relation: large scale division of labour; specialisation and mechanisation of manufacturing; mass production of standardised goods and rather strong unions (Boyer 1995: 23-24). These gave rise to increases in

¹ Yet 'the meaning of such a phrase as 'Keynesian Economics' is not at all straightforward' (Benassi et al. 1994:19). The key proposition arising out of Keynes's *General Theory of Employment, Interest and Money*, was that insufficient aggregate demand was the reason why equilibrium of market economies occurred at less than full employment levels. In the sixties however, the Hicksian ISLM plus Philips curve model became accepted as the standard Keynesian macroeconomic model. A trust of discretionary economic policies rather than emphasis on the role of inadequate demand, came to be the distinctive feature of Keynesian economics (Benassi et al. 1994: 12, 13).

productivity and a compromise on productivity sharing which influenced wage formation. Thus:

Conceptually, after the Second World War the wage was no longer a pure market variable since it took into account a minimum standard of living.² Second, this wage was then raised according to the general advances in productivity (Boyer 1995: 25).

The Keynesian welfare state was also based upon the stable nuclear and patriarchal family form. Perhaps nowhere is this made more clear than in the pursuit of housing policy in New Zealand. Housing was an important facet of New Zealand's Keynesian welfare state and historically the main focus of housing policy in New Zealand has been ongoing encouragement for home ownership for nuclear families on low and modest incomes. Thus for instance, the centrality of the nuclear family to housing policy, reinforced by a national ideological preference for home ownership and the low labour market status of women, instituted a housing sector which has marginalised many women in non-nuclear households (de Bruin and Dupuis 1995c).

2.3 Implications of Globalisation

Globalisation is altering the world economic landscape in fundamental ways. It is driven by a widespread push toward the liberalisation of trade and capital markets, increasing internationalisation of corporate production and distribution strategies and technological change that is rapidly dismantling barriers to the international tradability of goods and services and the mobility of capital (Qureshi 1996: 30). Kenichi Ohmae in the *Borderless World* puts forward that the idea of the 'Inter-linked Economy of the Triad' (the US, Europe and Japan), joined by other successful East Asian economies has become so powerful that:

it has swallowed most consumers, and corporations, made national borders disappear, and pushed bureaucrats, politicians and the military towards the status of declining industries (1991: xii).

² This gave rise to a family wage in New Zealand (see chapter 3).

Ohmae asserts that when:

governments are slow to grasp the fact that their role has changed from protecting their people and their natural resource base from outside economic threats to ensuring that their people have the widest range of choice among the best and cheapest goods and services from around the world (1991: xi).

and when:

governments still think and act like the sabre-rattling mercantilist ruling powers of centuries past - they discourage investment and impoverish their people (1991: xi).

Ohmae's exposition stresses that national economic borders are breaking down and attempts to preserve the economic autonomy of the nation state will only place a nation at a competitive disadvantage. The role of government as envisaged by Ohmae, is in protection of the environment, educating the workforce, and building a safe and comfortable social infrastructure.

The erosion of state autonomy in the face of global forces is argued as a contemporary reality. Held emphasises that there is a grave tension which exists:

between the idea of the state as in principle capable of determining its own future, and the world economy, international organizations, regional and global institutions, international law and military alliances which operate to shape and constrain the options of individual nation-states (1991: 217).

The continuation of traditional social democratic economic policy became less feasible if not impossible, as new forces of globalisation and increased international competition took hold after the end of the post-war long cycle of world economic growth which followed the oil crisis of 1973 (Scharpf 1991). The capitalist 'world hegemony' according to Cox (1987) entails 'the internationalizing of the state' to meet and complement the needs of the global production and distribution system. Furthermore, globalisation has forced convergence in economic policy which breaks down impediments to the operation of the free market (Kurzer 1991; Notermans 1993). Globalisation and the importance of

international competitiveness to national economies, has reduced the scope for Keynesian discretionary economic policies making the Keynesian welfare state no longer compatible with the global economy.

Neoclassical, Monetarist and Public Choice economic theory provided an analytical rationale and the stagflation of the post oil shock world economy supported a new direction in economic and social policy and the demise of Keynesian stabilisation and regulation of the market economy. By the mid 1980s, the notion that the Keynesian welfare state was in 'crisis' was widely accepted and received prominence in the literature (see for example OECD 1981, Mishra 1984). According to Galbraith, the discarding of the Keynesian welfare state, has been cemented by 'A Contented Electoral Majority' or a 'Culture of Contentment' and its line of economic thought (Galbraith 1992). Serving this contentment are three basic requirements: limited government intervention, social justification for the uninhibited pursuit of wealth, and a reduced sense of public responsibility for the poor (Galbraith 1992: 96, 97). Changing family forms, as elaborated in section 1.2.4, have also contributed to the erosion of the foundations of the Keynesian welfare state.

The implication that globalisation necessarily rules out effective Keynesian welfare state style economic management by nation-states has recently been challenged (Boyer 1996, Bienefeld 1996). Boyer, for example, stresses that it is 'still the epoch of the nation-state', and points out that deregulation of the labour market and 'slimming down of the welfare state', has not resulted in the return to full employment, but may have heightened inequalities which threaten future social stability. He hypothesises that:

This decade will probably experience a major turning point, from pro-market and conservative strategies towards more solidaristic policies oriented by rejuvenated state intervention in the domains of taxation, welfare, innovation and education. To be efficient market mechanisms would have to be embedded in adequate institutions governing money, labour and relations with nature ... The next century will still be the era of nation-states in charge of disciplining and taming the markets, but the contours of this involvement are still largely unknown (Boyer 1996: 110, 111).

Ignatieff's discernment may, however, be set against Boyer's predictions:

...the economy in which our needs are now satisfied has become global while the polity in which we try to control the pace and development of these needs remains national. Not even the great imperial powers can escape the challenge to their sovereignty presented by the global invisible hand. In a world market, where the balance of comparative advantage and the relative pricing of scarce factors of production constantly shift, the only power which really counts in a capitalist economy - the power to predict the future is - is decisively limited. The metaphor of the invisible hand implies as much: knowledge of its determination of our destiny can only be had retrospectively; prospectively its operations are unknowable (Ignatieff 1990: 128-9)

2.3.1 Internationalisation of the Labour Market

The growing internationalisation of the labour market is a feature of the current phase of capitalist development and a consequence of the emergence of the new global economy. Improved access to a vast low cost labour force in the developing countries, the recent growing economic liberalisation of economies like China and India and their integration into the global economy, the changing technological landscape, and the influence and domination of transnational corporations, are all factors contributing to the heightening pace in the internationalisation process of national labour markets.

The changed international division of labour that is an outcome of this process, is theorised by the New International Division of Labour thesis. The thesis notes the more global form of the latest phase of capitalist reorganisation. This form produces:

the possibility of a single world division of labour with labour forces around the world incorporated into the same hierarchy and contributing to the production of similar commodities (Thorns 1992: 25).³

The increasing internationalisation of the labour market coupled with

³ For a discussion of the features, a critique and evaluation of the New International Division of Labour thesis see Thorns 1992, chapter 2.

the perfect (or near perfect) internationalisation of the capital market as well as the liberalisation of product markets has altered dramatically the relations between employers and workers (capital-labour) that were a feature of the Keynesian welfare state. This relationship was crucial in the rise and subsequent decline of the Golden Age of capitalism (Marglin and Schor 1990, Boyer 1995). It has also been argued that labour market institutions and the production process were important in accounting for differences in economic performance of the Latin American versus the Asian Newly Industrialising Countries (Banuri 1991).⁴ Changing capital-labour relations in New Zealand, are examined in chapter 3 of this thesis and see also section 4.3.3.

2.3.2 Labour Market Flexibility

In section 2.2.2 of this chapter, the role of flexible production and specialisation in the new era of capitalist development was delineated. As Burrows et al. maintain:

The breakdown of Fordism and the emergence of post-Fordism is conceptualised primarily in terms of a search for greater levels of flexibility (1992: 3)

Labour market flexibility is at the forefront of the flexibility debate (Boyer 1988, OECD 1986, 1989 and Pollert 1991). Labour market flexibility is now frequently seen as a prerequisite for meeting the challenge of international competitiveness.

Various concepts of flexibility and in particular labour flexibility are linked to the changing welfare state (Finch 1994). The better employment performance of the US after the oil price shocks, relative to some European OECD countries is attributed to the lower degree of real labour cost rigidity in the US (Sachs 1983, OECD 1984, OECD 1985). Greater labour flexibility at the enterprise level is advocated. This is shown to be influenced by several factors, among them the various

⁴ Commonly, differences in economic performance of these two groups of NICs are attributed to differences in: factor price distortions, effective rates of protection, the degree of government intervention, human capital and the like. See for example Ranis 1981.

institutional arrangements providing job security including the industrial relations system and legislated employment protection measures (OECD 1986). Thus the greater flexibility of the US market also involves less generous unemployment insurance provisions and duration of benefits, lower levels of unionisation, less centralised wage bargaining and government intervention in the bargaining process; greater ease of hiring and firing of employees; lower social insurance charges and other non-wage labour costs, such as the amount of holiday pay (IMF 1994: 36). Attention to replication of all these considerations is therefore often deemed desirable in order to enhance labour market flexibility.

The alleged superiority of enhanced labour market flexibility as a strategy for job creation is, however, increasingly being doubted. Job growth in the US has been shown to be mostly in low-paid jobs, chiefly in the service sector (Dicken 1992). A similar trend in job creation has been observed following extensive labour market deregulation in the UK (Reich 1992). Furthermore in the UK, although union density has fallen and wage bargaining has been decentralised, there has been no corresponding increase in aggregate employment (ILO 1995: 19). Moreover, it is asserted that employment gains associated with the decline in union density in the US tends to be overstated and comparisons with more rigid European labour market institutional structures are misleading (Nolan 1994). Average real weekly earnings in the US have fallen by more than 12% since 1969 (National Centre on Education and the Economy 1990: 19). Increasing inequality of wages and earnings has accompanied increased labour market flexibility (Mishra 1995: 21, Drache 1996: 46). Both the US and the UK have followed a labour market deregulated, low employment standards, low wage-low productivity route to international competitiveness. By contrast, other developed countries particularly Germany, compete on a high wage-high productivity basis (Nolan 1994). Japan also presents a contrast to the US and British cases indicating that it is possible that innovation rather than flexibility is vital for high productivity growth and low unemployment (Kenney and Florida 1988). Furthermore, it may be argued that competition through lowering wages and

casualisation of employment in the short-run, is at the expense of technological dynamism and improved industrial efficiency in the longer term. Firms that seek to cut costs through lowering wage costs and employment standards, have less incentive to explore other avenues for increasing competitiveness, namely increased adaptation and innovation to upgrade product quality as well as search out new markets. See sections 3.3.1 and 4.3.3 for further comment on the 'flexibility debate' and impact of the deregulation of New Zealand's labour market.

2.3.3 Social Dumping

With globalisation and the internationalisation of the labour market strengthening the bargaining position of capital vis-à-vis both the state and labour, the resultant social implications for developed economies, can be captured within what has come to be widely referred to as 'social dumping'. This can take place, as Mosley summarises, chiefly in the following ways:

- (1) through the displacement of high-cost producers by low-cost producers from countries in which wages, social benefits, and direct and indirect costs entailed by protective legislation are markedly lower;
- (2) firms in high-labour-cost countries would be increasingly free to relocate their operations, thereby strengthening their bargaining power vis-à-vis their current workforce to exert downward pressure on wages and working conditions; and individual states might be tempted to pursue a low-wage and perhaps anti-union labor market strategy as part of their efforts to catch up economically (1990: 160).

It is argued that it is mainly the traditional labour intensive and low skilled manufacturing industries such as footwear and textiles that are prone to social dumping (Adnett 1995). Since these industries are now definitely sunset industries in the developed economies, it would suggest that the problem of social dumping is not particularly significant. Contrary to this suggestion, however, social dumping is potentially a serious problem that needs to be contended with. Footloose industries are present also in the so called high-tech sector and servicing aspects of industries such as data processing can also be contracted to low cost

labour in developing countries. With the growth of teleworking the scope for social dumping increases significantly. Evidence shows that social dumping is common in the US (Reich 1992: 205-15, Barnett and Cavanagh 1993: chapter 3). While the magnitude of social dumping in national economies is influenced by institutional arrangements circumscribing capital-labour relations, the responses to social dumping and unemployment, however, become crucial to the fate of the well-being of individuals in these national economies.

2.3.4 Welfare State and Economic Performance

In the new era of heightened globalisation, a broad critique of the welfare state is that it hinders economic performance and is a barrier to international competitiveness.⁵ There are two broad strands to this argument. Firstly, it may be asserted that countries with lower welfare costs are better able to compete in terms of productivity and product quality than those with higher welfare costs - there is a cost advantage of a low welfare burden. Secondly, welfare statism can be a productive liability.

Investigations on the relationship between the share of the national product claimed by the government (a proxy for the degree of welfare statism) and the growth of national product; and other studies on the influence of welfare statism on competitiveness, have been surveyed showing that there is contradictory evidence and no straightforward link between welfare statism and comparative economic performance (Pfaller et al. 1991: 17). Their own study (Pfaller with Gough) on comparative export performance and welfare statism did not provide convincing results. Similarly, it was shown that there was no relation between welfare statism and productivity in the 1970s, though there was a significant positive correlation between the growth of social expenditure and manufacturing labour productivity. It is suggested that the latter finding can support two hypotheses. The first is that

⁵ The 'underlying' competitiveness of a nation 'refers to its ability to achieve high factor incomes when exposed to international market forces'. By contrast, 'the actual chance of selling on the world market, regardless of the achievable income, might be called 'performing' competitiveness' (Pfaller et al. 1991: 6).

enterprises respond to rising welfare state costs by increasing efforts to enhance productivity, Second, although previously those countries who experienced a satisfactory growth of productivity had a greater inclination to extend their welfare states, 'in the different ideological climate of the 1980s such ambitions had vanished' (Pfaller et al. 1991: 31).

Although the authors maintain, 'our analysis has strengthened our confidence in the inherent competitiveness of the welfare state' (Pfaller et al. 1991: 10), the basic finding of the study was that in the 1980s, there was a suggestive negative association between welfare statism and some indicators of economic performance. What is interesting however, is that the study also showed that 'relatively smooth co-operation between business and labour' has been an important contributor to high-productivity, high-quality production. Inappropriate industrial relations were 'a major competitive handicap' (Pfaller et al. 1991: 296). Similarly interesting was the finding that human capital formation was an important advantage for West Germany and Sweden compared to the other investigated countries - USA, Britain and France.

More recently, the Swedish Economics Commission, arguing that productivity growth in Sweden has been significantly lower than the OECD average, and alluding to 'the crisis of the Swedish model', has indicted it as resulting in:

institutions and structures that today constitute an obstacle to economic efficiency and economic growth because of the lack of flexibility and their one-sided concerns for income safety and distribution, with limited concern for economic incentives (Lindbeck et al. 1994: 17).

Cuts in benefit levels are advocated so as to establish:

a mandatory benefit level, which is low enough for large groups to find it attractive to acquire additional insurance by themselves (Lindbeck et al. 1994: 106).

Atkinson (1995b) by contrast, uses the case of replacement of a state funded pension scheme with private provision through funded schemes

and an endogenous growth model to show that while this may lead to a rise in the savings rate there is a fall in the desired growth rate of firms. When examining the proposition of whether the welfare state does necessarily impede economic growth, Atkinson thus concludes that the ‘jury should stay out’ as ‘there is a plausible case that can be entered for the defence’ of the welfare state (Atkinson 1995b: 730). In another paper Atkinson (1995a) examines aggregate empirical evidence provided by nine different studies of growth rate and social transfers, to show mixed evidence. A number of problems with aggregate cross-country evidence are highlighted to show that the interpretation of results depends on the theoretical framework used.⁶ The significant contribution of this paper is to show, through the use of specified models, that the institutional structure and features of benefits can change their impact on economic behaviour. Thus an identical amount of total spending on social transfers may have different outcomes for long run growth rate or the level of GDP, depending on the structure and conditions of entitlements. Hence:

Switching to “targeted” benefits or to private provision may replace one set of disincentives by another. Economists cannot ignore what may be issues of detail (Atkinson 1995a: 196).

This is a pertinent observation which should be heeded. In section 4.3.3 of this study too for instance, it is pointed out that ‘issues of detail’, namely design features of active labour market programmes, influences the effectiveness of such programmes.

2.3.5 Alternative State Forms

It cannot be denied that the growth and re-ordering of the global trading system and increased capital mobility constrain the capacity of governments, particularly of small open economies such as New Zealand, to pursue independent economic policies. As Drache says:

What is irrefutable is that the structure of local, national and

⁶ This observation would also apply to the Pfaller et al 1991 study referred to earlier in this section.

international markets has always shaped state policy and civil society in modern times. In no era is this more apparent than the present. As capital becomes increasingly mobile, the investment characteristics of capital flows reflect increasingly the pressures of the global market over local markets. The aggressive pursuit of these heightened investment and trade opportunities by business and government is changing the structure of the modern state (1996: 32).

The welfare state needs to transform and adapt, so that a mode of regulation more suited to the new technology style of an era of heightened globalisation, evolves. The new state structure that emerges, however, does not, necessarily have to converge across developed economies. The time frame of adaptation may vary from country to country and the ultimate form of the new state also depend upon political culture, socio-institutional framework and the degree of capital-labour accord.

An interesting explanation for the variation in the time duration and ease of adjustment may be found in an idea put forward by Richard Freeman (1995). His 'welfare-state-as-system' hypothesis attempts to answer the questions why extensive welfare states worked well for so long and why efficiency-oriented welfare state reforms are costly. The argument pivots on the suggestion that change is more costly in 'highly coupled systems'. Thus Sweden's welfare and economic policies have historically fitted together in a systemic fashion and all parts of the Swedish welfare state model contributed to the maintenance of full employment. Using evidence from a recent research study of the microeconomics of Sweden's welfare state, it is asserted that:

a highly interrelated welfare state and economy ... maintained high employment and wage compression, that offset work disincentives from welfare benefits and high taxes, and ultimately helped eliminate poverty' (Freeman 1995: 18).

Although on the author's own admittance this is a speculative paper, other evidence also appears to support this welfare-state-as-system hypothesis. Thus for example, the systemic nature of the build up of Sweden's competitive advantage could provide collaborative evidence. For instance, the high levels of concern for worker safety and for

handicapped persons, created industries to cater to these concerns and paved the way for these industries to later become world-class industries. The industry for communications aids to disabled persons for instance, was given a headstart because of the centralised Swedish purchasing system for handicap products, the guarantee of minimum sales for approved products and research and development support (Solvell et al. 1992: 161-163). Such 'anticipatory buyer needs' whereby 'a nation's political or social values foreshadow needs that will ultimately emerge elsewhere', contribute to a nation's competitive advantage (Solvell et al. 1992: 32).⁷

Jessop argues that:

a Schumpeterian workfare state is more suited in form and function to an emerging post-Fordism (1994a: 251).

The crisis of Fordism, the success of the post-Fordist economies of East Asia with their type of effective Schumpeterian workfare state regimes and the growing importance of structural competitiveness suggests that 'we will witness the continuing consolidation of the 'hollowed-out Schumpeterian workfare state' in successful capitalist economies' (Jessop 1994b: 36).⁸

Distinctive objectives of this Schumpeterian workfare state are to:

- Promote product, process, organisational and market innovation in open economies in order to strengthen as far as possible the structural competitiveness of the national economy by intervening on the supply side
- Subordinate social policy to the needs of labour market flexibility and/or the constraints of international competition (Jessop 1994a: 263).

These economic and social objectives represent a firm break with the tradition of the Keynesian welfare state since now international

⁷ The suggestion that New Zealand's welfare state system was more loosely coupled than Sweden's is a consideration alluded to in chapter 3 of this thesis.

⁸ In section 3.4 of the following chapter an attempt is made to answer the question whether New Zealand's welfare state has moved to a Schumpeterian workfare state.

competitiveness of the economy takes precedence over domestic full employment and a 'productivist reordering of social policy' is given a higher priority than redistributive welfare rights (Jessop 1994a: 263).

The Schumpeterian workfare state is, however, not an immediate response to the crisis of Fordism. Rather, the usual tendency was to try and retain the Keynesian state form for as long as possible. Thus Keynesian demand management policies were pursued even in the face of stagflation, and welfare commitments continued to be maintained despite worsening fiscal problems. Growing realisation that such a policy path only leads to a deepening crisis, resulted in a search for an appropriate form of capitalist state to meet the needs of post-Fordism. The outcome of this continuing search has tended to be the Schumpeterian workfare state, which like the Keynesian state has different variants, according to the strategies adopted in various countries. Jessop (1994a) classifies these Schumpeterian workfare strategies into neo-liberal, neo-corporatist and neo-statist forms, with a mixture of these forms also possible.

The neo-liberal strategies, provide for a market-based transition to the new economic regime, similar to Thatcherism in the UK and Reaganism in the US. Restructuring of the public sector takes place with privatisation and the application of commercial principles to the remaining state sector. Deregulation of the economy and an enabling legal and political framework supports the market operations of the private sector. The government promotes a flexible labour market. Favoured economic activities receive subsidies and incentives through the tax system resulting in rising tax expenditure. Social partnership arrangements are rejected. The free play of market forces and internationalisation are accorded primacy of place and innovation is expected to spontaneously follow on from this.

Neo-corporatist and corporatist arrangements arise out of advance planning and concertation of economic decisions and activities by economic agents, in order to further their own economic ends. Unlike under the Keynesian welfare state where corporatist strategies aimed at

the maintenance of full employment or stemmed from concerns about stagflation, however, neo-corporatist arrangements of the Schumpeterian workfare state are linked to the desire to promote innovation and structural competitiveness. There is also a movement away from macro level corporatist arrangements, as for example between the broad organisations of capital and labour, toward more selective, micro arrangements, between for instance functionally distinct (e.g. the health and education) policy communities.

Neo-statist strategies involve active intervention by the state to promote the structural competitiveness of the economy. Thus the state, in its own right and as an economic actor among others, acts to ensure dynamic efficiency of the industrial core particularly by overseeing the restructuring of declining industries and through microeconomic targeting of policies toward particular sectors, chiefly in the high technology arena. Reskilling of the labour force is given high priority, as is stimulation of innovation.

Drache describes the new state form of the post-Fordist era as the 'K-Mart state', named after the US multinational retailing giant, K-mart, and 'emblematic of the new work world of the casual, part-time low-wage, non-unionized service sectors of the economy', (Drache 1996: 36). The K-mart state, is the reconfiguration of the Keynesian state in order to meet the demands of the internationalisation of production, the new global corporation and the era of hyper-capital mobility. This state form thus has the workfare features of Jessop's Schumpeterian workfare state, based on neo-liberal strategies. It is a post-national state underpinned by Thatcherite social policy which includes reduced social nets; Monetarist macroeconomic policy of 'zero inflation, balanced budget, undertaxed rich and heavy consumer taxes'; and flexible labour markets (Drache 1996: 39).

2.4 Chapter Conclusion

This chapter highlights the historical construction and basis of the welfare state, as capitalism has moved between different phases of

development.

A large part of this chapter comprises a literature review and was designed to provide a global perspective to the changes that have taken place in New Zealand's welfare state, to be covered in subsequent chapters of this thesis. Developments in the international economy underlie the structural adjustment process in national economies. Following Ghai, this process may be:

defined simply as increased reliance on market forces and the reduced role of the state in economic management (Ghai 1994: 15).

Similarly, developments in the international economy also underlie changing state-capital-labour relations at the national level.

The modern Western welfare state had a functionality within the Fordist economic system. The transition to a new phase of capitalist development, the forces of globalisation and the new international division of labour, however, translated into a collapse of the foundations of the Keynesian welfare state and a need for a new mode of regulation. With the Keynesian welfare state no longer compatible with the global economy, a new socio-economic-institutional framework that fits the post-Fordist regime and will take the world into a new long cycle of economic growth needs to develop and consolidate.

Different state forms and policies can emerge in response to the demands of the new technological era. Enhanced labour market flexibility is now often considered to be a necessary feature of emerging new state forms. Increasing inequality of wages and earnings, however, has accompanied increased labour market flexibility. Adjustment to the forces of globalisation, can also have detrimental social implications. It is important therefore that national policy responses take account of such negative aspects of the adjustment process so that individual well-being outcomes may be maintained and improved. Ultimately political factors will also play a crucial role in determining such policy responses as well as final state forms.

PART II

NATIONAL CHANGE

The New Zealand Welfare State

3.1 Chapter Introduction

This chapter is the first in the trio of chapters grouped under the heading of ‘National Change’, in Part II of the thesis. It moves the analysis of the study down to the national level of the New Zealand welfare state, as shown by the shaded portion of figure 3.1 below.

FIGURE 3.1

The National-level Focus of the Multi-level Analysis of the Study



The chapter traces the origins and development of the New Zealand welfare state. It highlights the design of welfare provision, built on the foundations of full employment and a state-capital-labour relationship which gave rise to the ‘family wage’, that was characteristic of New Zealand’s welfare state. Examining the erosion and collapse of these foundations, this chapter then contends that the terminology ‘welfare state’ is no longer useful to describe the post 1984 state form that now exists in New Zealand. In order to differentiate the ‘new’ welfare state from the pre 1984 one, the alternative descriptor of ‘well-being enabling state’ is developed and discussed. The fit of New Zealand’s new

state form to the Schumpeterian workfare state model as set out in section 2.3.5 of the preceding chapter is also examined.

3.2 The Welfare State in Historical Perspective

During the period of early European settlement in New Zealand (1840-1898), legal enactment¹ placed responsibility for welfare very definitely with the family. Even as state social security benefits began to be introduced in the period from 1898-1938, these benefits were rigorously means tested and the family retained the primary responsibility for support and maintenance of relatives. As the welfare state progressed, though the welfare mix moved more toward the state, working class pragmatism sought to procure their welfare through state support of wage and employment security rather than through more comprehensive forms of welfare as in the Scandinavian welfare states (Shirley 1990). The provision of the 'family wage' coupled with full employment, constituted the foundations upon which a 'distinctive set of welfare arrangements' were built, to establish New Zealand as one of the leading welfare states of the post second World War period (Shirley forthcoming: 87).

The value placed on security - both economic and social, lies at the core of the New Zealand welfare state. The Great Depression had heightened awareness of the pain of unemployment and the risk of meagre state provision. The objective of the welfare state, was to give *all* New Zealanders access to key services - education, health, housing, income maintenance, so as to promote overall welfare. The implicit welfare contract was that the state would ensure economic security and social well-being.

¹ For example the 1846 Ordinance for the support of destitute families and illegitimate children and the 1877 Destitute Persons Act required 'near relatives' to pay for the destitute person, illegitimate children or deserted wives and children. Destitute persons were defined as those who was unable to support themselves by their own means of labour and under the 1877 Act a Magistrate's order could require payment of up to 20/- per week for support of the destitute person (O'Brien 1993).

The generally accepted idea of an assurance of income adequacy as a central tenet of the welfare state was formalised by the Royal Commission on Social Security (RCSS) when they introduced the concept of the state ensuring a standard of living that would allow '*participation in and belonging to the community*' (RCSS 1972: 65, original's italics).² The state was assigned the basic role of ensuring not 'a mere hand-to-mouth security' but 'a modest affluence for all' (Oliver 1960: 276).

In setting out the principles upon which social security should be based, the Royal Commission on Social Security, nevertheless, maintained an emphasis on selectivity in social security. Benefit payments were to be on the basis of 'need' which was assessed in terms of income tests, although the standard of adequacy of the benefits would be that which would enable '*participation in and belonging to the community*'. Thus even though state responsibility for welfare appeared as the dominant value adhered to during the progression of the welfare state, there was always the underlying assumption of self provision for welfare needs. O'Brien (1993) asserts that the history of the development of social security in New Zealand indicates that there has been a continuous struggle relating to the respective roles of the state and the family.

The New Zealand welfare state has always had a mix of targeted and universal welfare provision. Thus for example, primary and secondary education have always had a universal basis of public provision but welfare benefits for those outside the wage system usually have been means tested.

While the conflict between state and private provision in the social security arena was never fully reconciled even as the welfare state progressed, there was no doubt as to the state's role in the provision of

² Easton (1996b) points out that that the Royal Commission on Social Security concept of 'belonging and participating' can be given a wider interpretation. Despite adequate income some may be unable to participate in and belong to their community; for example those with mobility impairments may be denied access to public buildings in their community.

economic security. Full employment (of the adult male³) was the 'fulcrum of New Zealand's welfare state' (Rosenberg 1977). Full employment was one of the dual corner-stones of the welfare state, with the other being the guarantee of a living wage. This was the basis of what Castles titles New Zealand's 'wage-earners' welfare state', where:

The historic compromise between the classes did not centre around a modification of the reward structure of capitalism through the distributive mechanisms at the command of the state, as in European countries, but focused directly on the primary distribution of income generated by the capitalist market mechanism (Castles 1985: 87).

3.2.1 1890-1935: Origins

Usually, the inception of the modern welfare state in New Zealand, is chronologically set to coincide with the advent of the first Labour government in 1935 and the passage of the 1938 Social Security Act. The initial foundations of New Zealand's welfare state, however, were being laid much earlier.

The 1890 General Election brought the Liberal Party to power, ending nearly two decades of domination of politics and government by the conservative landed and urban gentry (James 1986). Small farmer and town worker support were largely responsible for the Liberal victory. The Liberal Party's election manifesto had promised better working conditions for all workers and the resumption of state land purchases. The Conservative Party, by contrast, had no policy to improve conditions for working people and its labour market policy was one of non interference and a reliance on market forces. Upon taking office in January 1891, the Department of Labour Act 1891 was passed which established the Department of Labour, whose primary function was the linking of workers with work, both in the private and public sectors (Mulengu 1994: 92-94).⁴

The labour movement in New Zealand was fortunate to have:

³ The Department of Statistics did not even collect data on female wages prior to 1978.

⁴ After the establishment of the arbitration system, in 1894, maintenance and administration of the system became a major function of the Department (Walsh 1993).

one outstanding advocate in Cabinet, William Pember Reeves, Minister of Labour from 1892 to 1896. Like many of his contemporaries, Reeves equated socialism with the democratic use of state power to ameliorate *laissez-faire* capitalism' (Richardson 1992: 206).

In 1894, under his direction, the Industrial Conciliation and Arbitration Act established the central Arbitration Court, providing a mechanism for the peaceful resolution of industrial disputes and the institution of compulsory awards on wages and conditions which would apply to all workers in the industry concerned. This was a landmark piece of legislation because it recognised the state's role in the moderation of market forces through wage fixing, a fundamental feature of New Zealand's welfare state. It set in place a mechanism that achieved two ends:

...it set the parameters for wage determination, and in that respect it met the demands of the working class; and it regulated wage adjustment problems in a country which was subject to fluctuating export prices. The outcome was the establishment of a wage fixing system, which was influenced by forces other than those of the market. At the same time social policy criteria was directly introduced into the wage fixing procedures of the state (Shirley forthcoming: 88).

The Act was designed to encourage the formation of trade unions and associations through a strengthening of the role of trade unions by making it mandatory for employers to negotiate with them. As the price for providing statutory methods of dispute resolution, however, strict controls were placed on direct action - strikes. The Act required the Court to make decisions 'in equity and good conscience' and this meant that the Court gradually adopted the concept of a living wage (Woods 1963). This was in fact a family wage based on male employment, adequate to meet the normal needs of a working man, supporting a wife and three children (Shirley forthcoming). It also involved movement of basic wage rates approximately in line with the cost of living.

Distinctive also to New Zealand's welfare state, is the key role that housing policy played in underpinning the family wage. New Zealand

is a nation of home owners. At the 1991 Census, 73.6% of all households in New Zealand were in this tenure and unlike other countries where mass home ownership is a relatively new phenomenon, in New Zealand home ownership has been the dominant tenure throughout this century (de Bruin and Dupuis 1995c). Home ownership levels in New Zealand are much higher than in Scandinavian countries. The Swedish housing market in the 1990s for example, is characterised by three tenure forms: 40% of households own their home, 15% are in co-operative tenant-ownership and rental tenancy in apartments is 40% (Davidson 1995). In New Zealand, the ideology of urban home ownership was supported from the first decades of the twentieth century with a flow of legislation which complemented the wage regulation mechanisms set in place in the 1890s, by ensuring affordable housing for wage earners. The earliest act dealing specifically with urban housing was The Workers' Dwellings Act of 1905, which provided for the building and financing for the purposes of lease, rent or sale, of low cost housing to manual workers. This act was quickly followed by the Advances to Workers Act of 1906, which enabled workers on modest incomes to obtain low cost housing finance. These acts were added to during World War I with the Discharged Soldiers Settlement Act of 1915, and consolidated into the 1919 Housing Act. A key feature of these acts (despite the wording of the 1905 Act which indicated it applied to both male and female workers) was that they all aimed at supporting home ownership for the male-headed nuclear family and were aimed at 'respectable' workers rather than those in greatest need.

The state also acknowledged its role in supporting the family through direct job creation as a solution to unemployment. Thus an important plank of the Liberal Party response to unemployment was institution of the co-operative works scheme. The implicit promise to tackle the practice of sub-contracting, an important issue among working men, was part of the Liberal election platform. Although contractors who won tenders on public works were forbidden to do so under the terms of their contract, the practice of sub-contracting was rife in 1890. The Liberal Government's desire to eradicate this practice so that

exploitation of (male) workers may be prevented, resulted in the public works tendering system being abolished and the introduction of the co-operative works scheme. Under this scheme small contracts of public works were let to groups of six to eleven unemployed men who would appoint a leader from amongst themselves for representation in all governmental dealings. By 1893, the scheme had entirely replaced direct employment of the unemployed on public works (Mulengu 1994: 99, 100). In 1894, a settlement scheme was introduced to complement the co-operative works scheme. When land was available for settlement within reasonable proximity to co-operative works, the unemployed would become permanent settlers on the lands.

To get men on the land was a solution proffered for unemployment and urban poverty' (Sinclair 1965: 149).

Moreover the ideal of the rural family was firmly entrenched in nineteenth century ideology, and during this period the state opted to act as the 'agent of settlement' rather than taking an interventionist position within the economy (Oliver 1988). The state's role in providing social security was, however, acknowledged with the enactment of the Old Age Pensions Act of 1898. This Act was the first pension scheme in the world to cover all aged people in need.

3.2.2 1935-1948: Establishment and Entrenchment

The election of the first Labour Government in 1935, was the catalyst for the establishment of the modern welfare state in New Zealand. In particular the 1938 Social Security Act which introduced sickness and unemployment benefits, hospital and medical benefits and new provisions for orphans and elderly, made clear the state's intention of not merely to provide for the 'deserving poor' but to 'maintain and promote the health and general welfare of the community' (Act preamble). The Labour Party's 1935 Election Manifesto had stated that Labour's fiscal and monetary policies would guarantee to a worker an income sufficient to enable him (sic) to:

provide him and his dependants with everything necessary to make a “home” and “home life” in the best sense of the meaning of those terms (quoted in Sinclair, 1959: 259).

In the late 1920s, as economic depression was setting in, compulsory arbitration was removed on the instigation of employers and farmers bent on taking advantage of market forces which were working in their favour. The election of the first Labour government, however, restored compulsory arbitration and made union membership compulsory. The Industrial Conciliation and Arbitration Act guaranteed ‘blanket coverage’ in the application of wage awards, so that they were extended to all workers in the occupation or industry, and the state through the Department of Labour took on the enforcement of these awards. The arbitration system also served another useful function in that:

by dividing and therefore weakening the union movement, arbitration operated effectively as a State strategy of control in industrial relations (Walsh 1993: 178).

The crucial function of the system, however, was that it ensured a ‘fair’ wage which enabled wage earners and their dependants to attain a modest affluence. This assurance of a fair wage resulted in, as Shirley and Castles emphasise:

a social policy development quite different from that in Europe. Benefits could be residual rather than universal, because they were only required by those with no labour market connection; benefits could be flat-rate rather than earnings related, because they were only a secondary safety net below stipulated minimum wages; benefits could be more appropriately financed from general taxation than from contributions, since contributions would imply a right to welfare assistance, when the only right within the system was the right to ‘fair’ wages (1996: 91).

A ‘fair wage’, was in fact a ‘family wage’. The family wage buttressed by full employment, guaranteed the male breadwinner the ability to comfortably maintain himself, a wife and three children. A two pronged concept of ‘insulation’ was the strategy by which this was accomplished. The economy was insulated by protective measures and the family wage was insulated by establishing base wage rates that would enable a man to support his family in reasonable comfort (Shirley forthcoming).

State family policy had been instituted with the passage of the 1926 Family Allowance Act and the payment of an income tested allowance for the third and subsequent children under the age of fifteen. The 1938 Social Security Act continued these strict provisions for the family benefit and it was only in 1946 that a universal family benefit became payable without a means test for all children under the age of sixteen.

Housing policy continued to support the 'family' throughout the period. This was 'the hey-day of state activity in housing' (de Bruin and Dupuis 1995c). Housing played a vital role in the progression of the welfare state in New Zealand.

3.2.3 1948-1973: Consolidation

New Zealand's 'mixed economy' was characterised by widespread state ownership of industry and assets and strong state regulation of economic activity. The push for import substituting industrialisation behind high protective barriers became a feature of the country's economic development. A complex array of import licences and other regulatory controls, together with discretionary economic stabilisation measures, supported by a fixed exchange rate, was part of the strategy adopted to ensure full employment. Wage regulation and the maintenance of wage relativity and uniform work conditions complemented full employment. State agricultural policy gave security to the farming population. Guaranteed prices, government supported marketing boards, subsidised development finance, state provided services such as research and extension, and pest control, translated into a massive umbrella of state protection over the agricultural sector. As Shirley discerningly comments:

For over 30 years the Welfare State effectively met the diverse interests of capital and labour and in return, the various sector groups modified their political aspirations. Wage and salary earners gained full employment and a modicum of security, and in return, the socialist tendencies of the working class were modified. The business community benefited from an extended period of prosperity and stability, but they surrendered a certain amount of commercial freedom in the process. The farming sector was protected by

guaranteed prices for dairy products and supplementary minimum prices... (1990: 355).

The post-war standard of living rose, with a favourable wage structure that was supported by eligibility to housing, health and education entitlements of the welfare state, and family farmers with an assured income, combining to give a high basic family income. As Condliffe observed:

New Zealand is a fortunate country... At least on the material plane, it could be difficult to find any country which offered a better chance of a good life to the average man. Children are protected from their infancy... Education is universal and there is no illiteracy. For nearly two decades there has been practically no unemployment. A comprehensive system of social security covers the New Zealander from birth to death (1959: 177).

The statistical reality of welfare spending during the fifties and sixties, however, was one of relative stagnation, with growth of welfare spending barely keeping pace with GDP growth. Allowing for population changes and inflation, real expenditure on health, education and social services grew only by a small percentage per annum (Martin 1982: 49). Benefit levels were not adjusted in relation to real wages and the value of the universal family benefit, in particular, was substantially eroded by inflation. Moreover, substantial differences in the incomes of New Zealand Maori, was a distinguishable feature of the welfare state. In 1971, Census data showed that the average income of a Maori male was \$1,109 or less than half of the average male income of \$2,067. Even after adjusting for the differences in age distribution of the Maori population, the Maori average income was only 72.3% of the national average. Maori disadvantage in education, health and housing was also evidenced. Importantly, 25.9% of all Maori workers went into unskilled occupations compared to 6.5% of the non-Maori population. (Shirley 1990: 359). Yet the 1972 Royal Commission on Social Security (RCSS) reported no dissatisfaction with the social security system. Full employment guaranteed 'modest affluence for all'. In fact it may be

justifiably argued that the 1972 Report⁵ represents a milestone in acceptance of state responsibility for welfare provision, chiefly because the Commission recommended the creation of the domestic purposes benefit, increases in basic benefits and the family benefit, the deletion of the morals clause for benefits and formulation of the concept of '*participation in and belonging to the community*' (RCSS 1972: 65, original's italics). The Report confirmed the satisfaction of New Zealanders with the welfare system, concluding that:

the present system has worked to the advantage of the nation since 1938, it has become part of the economic and social fabric, it is capable with certain changes, of serving its purpose adequately in the foreseeable future, and that no alternative which we examined is likely to do so better and without considerable disruption of the other economic and social elements which make up our national pattern of life (RCSS 1972: 32).

Davidson nevertheless maintains that the Report:

endorsed maintenance of the heritage of 1938, and failed to move much beyond the concept of subsistence income (1989: 302).

An understanding of the Commission's belief in a continuation of 'full employment' to underpin social policy, however, renders possible a more sympathetic interpretation of the Report.⁶ As the Report boldly asserts:

Even if "full-employment" is an imprecise concept, it is unlikely that any New Zealand Government will be able to escape from public insistence that it must so manage the economy that there is a market for the services of all who are able and willing to work. The provision of income support through social security, or for that matter, the creation of jobs at times and places where circumstances warrant it, are only secondary protections (RCSS 1972: 291).

⁵ The National Government established the Royal Commission of Inquiry into Social Security in 1969 but the Report was only presented in March 1972. The Report was the first significant assessment of the welfare system since 1938.

⁶ Snively maintains that since all the overseas economic journals came to New Zealand by sea mail nearly 9 months after publication and the articles contained in them were written over a year earlier, the RCSS were probably not aware of 'the prevailing view among "established" American market economists' (1989: 144).

The acceptance that economic policy would be used to maintain full employment and therefrom, the welfare of New Zealanders, was such that as Rosenberg describes:

...full employment is perceived as the fulcrum of social welfare. A fulcrum is defined, in a mechanical sense, as a point against which a lever is placed to get support. In this sense full employment is the means without which government policies cannot effectively attain the positive objectives of improved social well-being, economic progress and human development. Without full employment, a substantial proportion of the energy and resources expended in various policies (for example, health, education, law and order and racial integration) would be dissipated and hence broad objectives of social and economic improvement could probably not be attained (1977: 45).

New Zealand's average economic performance was reasonable and comparable to other small OECD countries, during the post-war long wave upswing (Dalziel and Lattimore 1996). The nature of the predominantly agricultural export economy chiefly based on wool, meat and dairy products, however, made it vulnerable to sharp fluctuations in export income, the impact of which fed into the rest of the economy. This is clearly illustrated by the 1967-68 recession which was caused by a fall in the world price of wool. The uncertainties of primary product dependence were reinforced by market concentration on the United Kingdom - a colonial legacy.

The latter part of the period, however, saw signs of emerging strains in the industrial relations system which constituted one of the cornerstones of the welfare state. The arbitration system slipped into decline. The Arbitration Court's decision of a nil general wage order in 1968, resulted in a loss of confidence. To avert industrial chaos, what the then Minister of Finance, Robert Muldoon described as an 'unholy alliance', was formed between employers and worker organisations, to overturn the decision and issue a 5% increase. 'But the unholy alliance could not endure' (Walsh 1993: 182). The authority of the Court had been undermined and with no institutional mechanism to control the wage fixing process and co-ordinate the occupational wage

differentials, working days lost rose to levels unprecedented since 1951, as one relativity-based claim followed another (Walsh 1993).

3.2.4 1973-1984: Eroding Foundations

Two events make 1973 a distinct dividing line in the economic history of New Zealand. The formal entry of the United Kingdom (UK) into the European Economic Community (EEC) on 1 January 1973, ended preferential access of New Zealand exports to British agricultural markets under the 1932 Ottawa Agreement and wartime 'commandeer' programmes. At this time the UK was still New Zealand's main export market but now the UK's move into the EEC, signalled a dramatic shift in the demand pattern for New Zealand exports. This coupled with the second significant event in 1973 - the first oil price shock, and the resultant tripling of oil prices, impacted adversely on New Zealand's terms of trade and the current account of the balance of payments. In addition to rising inflation, the level of unemployment began to steadily rise from 1978. For the first time since the Second World War, the registered unemployment rate rose above 1% in 1977/78 and had reached 5.7% by 1983/84 (Dalziel and Lattimore 1996: 16, 18). The period thus saw a steady erosion of the full employment foundation of the welfare state.

With rising unemployment and the second oil price shock in 1979 fuelling inflation levels to around 13%, the Government embarked on the 'Think Big'⁷ economic strategy which was designed to reduce New Zealand's dependence on imported fuel, improve the balance of payments, induce output and employment growth. With the construction of the Think Big projects in the early 1980s, unemployment stabilised in 1981/82 but then began its climb again to end the period with registered unemployment almost at 6%. The focus of the government, however was on controlling inflation. The inflation

⁷ This strategy was so named because it was based on large scale projects (chiefly energy) - the Motonui synthetic fuel project, expansion of the Marsden Point oil refinery, a proposal for a second aluminium smelter at Aramoana which did not go ahead, expansion of the Glenbrook steel mill, the Waitara methanol plant, the Petrocorp ammonia urea plant and the Clyde Dam hydro electricity project

rate was almost 16% in 1981/82 yet the government failed to get agreement from the union sector - the Federation of Labour, to a wage-tax trade off. This was indicative of the erosion of the historic compromise between capital and labour that was characteristic of New Zealand's welfare state. It resulted in the imposition of a freeze on all domestic prices on 22 June 1982. The freeze which included wages and salaries, interest rates and exchange rates, was intended to last for an year but was later extended into 1984.

The period was marked by the growing fiscal crisis of the welfare state. The traditional Keynesian demand management solution to the unfavourable external events of 1973 led to a rise in government expenditure to increase to almost 40% of GDP and the budget deficit (Budget table 2 balance), to widen from 4% of GDP in 1974/75 to 8.9% by 1975/76. Temporary restraint pulled this deficit down the following year but it was back up to 8.5% by 1979/79 as rising numbers of unemployment and domestic purposes beneficiaries and the introduction of the National Superannuation scheme in 1977 contributed to an increase in transfer payments financed from general taxation. Tax cuts announced in the 1982 Budget without reciprocal expenditure cuts sent the table 2 budget deficit to 8.8% of GDP and more importantly the financial deficit soared to 6.5% of GDP (Dalziel and Lattimore 1996: 52).⁸ In addition to the widening fiscal deficit over the period, the level of public debt also burgeoned. Total public debt at 31 March 1984 was \$21.9 million compared to \$3.7 million a decade earlier (The Treasury 1984: 86). The composition of public debt too altered with proportion of external debt rising to 38% of the total at 31 March 1984 from 12% ten years earlier.

As the neoclassical resurgence in economic theory began to dominate the international economic policy agenda, this period saw the beginning of support in New Zealand, especially among the financial

⁸ The financial deficit is the government's fiscal balance excluding capital revenue and expenditure. In 1974/75, since much of the additional expenditure was on account of investment projects, the financial deficit remained relatively low at 1.6% of GDP but by 1978/79 the financial deficit too had risen to stand at 4.1% of GDP.

community, for these ideas. A key source of support was the Business Round Table. The Business Round Table, an informal grouping of leading industrialists formed in the mid 1970s to discuss matters of common interest, emerged by the early 1980s as an influential advocate of fundamental change in the areas of fiscal and social policy, trade, public sector management, industrial relations, market regulation, education and environmental policy (Roper 1990). Shirley asserts that this line of thinking:

was an aggressive, individualistic ethos which contrasted sharply with the traditional and rather old fashioned business milieu of post-war New Zealand which was based on producing established products for secure overseas markets in 'cooperation' with the Trade Union movement. The libertarian Right advocated a return to voluntary unionism and a reassertion of those market principles which had been undermined by the welfare state...(Shirley 1990: 362).

Prior to 1984, however, attempts made to formally incorporate the principle of private provision into the social security system were suppressed by political expediencies guaranteeing the triumph of state provision. Thus one of the few attempts to recognise private provision for social security was short-lived. The third Labour government's New Zealand Superannuation Act 1974, required employees between the ages of 17-65 years and their employers to contribute either to the New Zealand Superannuation Fund or any other approved scheme. If this self-funded scheme had been retained, a 1991 study showed that its capital base would have been twice the size of the Government's overseas debt and its income stream would have probably been able to finance current guaranteed retirement income (*Dominion Sunday Times*, 19 May 1991). Yet National's 1975 election campaign included the promise to repeal Labour's 1974 Superannuation Scheme and replace it with a fully tax funded scheme. As McRobie comments:

This was without doubt the biggest election bribe ever made in New Zealand politics and a blatant appeal to voters' greed (1992: 3912).

Additionally the qualifying age was lowered from 65 to 60 and provision of a generous universal benefit to those who satisfied a ten

year residential requirement was ‘the most expensive electoral bribe in the country’s history, and the most successful’ (Sinclair 1990: 355).

Compounding the erosion of the foundations of the welfare state during this period, was the degeneration of the social consensus which had marked the post war years of prosperity in New Zealand. Altered ethnic relations with the cultural and social revival of Maori and the changed nature of their political struggle, together with changes arising out of the growth of the feminist movement and with it the decline of the dominant ‘male breadwinner’ family support model, were strong contributory factors in the breakdown of this social consensus (Thorns 1993).

3.3 From Welfare State to Well-Being Enabling State

3.3.1 1984-1991: Collapsed Foundations of the Welfare State

1984 was a watershed year in New Zealand’s welfare state. The election of the fourth Labour Government, like that of its original predecessor the first Labour Government, was a landmark in the history of New Zealand’s welfare state. The similarity however ends here for the first Labour Government marked the commencement of the progression of the welfare state, while the fourth marked its regression.

The revolution in economic policy involving greater reliance on market allocation of resources and lesser government regulation, which began in the early 1980s, took firm hold with the wider programme of economic liberalisation of the fourth Labour Government (Bollard and Buckle 1987). Keynesian principles of economic management which had been widely accepted by the academic, political and bureaucratic milieus during the periods of establishment and consolidation of the welfare state were successively dismantled. The belief that management of the economy through aggregate demand manipulation was desirable, found little favour in policy influencing and making circles. In the Treasury briefing papers to the incoming government, it was clarified that:

In the present circumstances it is clear that the unemployment problem cannot be addressed by engineering an expansion of demand. This is prohibited by the balance of payments situation at present but, more importantly, past experience has shown that the employment gains arising from such expansions are both uncertain and shortlived (The Treasury 1984: 241).

Furthermore, the acceptance of intervention in the labour market in order to guarantee a 'family wage', one of the twin foundations of the welfare state, was also rapidly falling from favour. The Treasury view on the commodification of labour came firmly through in its advice to the incoming Government on addressing of economic policy issues:

Wages are the price of labour, and as with any price they need to be responsive to underlying demand and supply conditions. ... In this regard the practice of providing general wage orders is at odds with the role of wages as the price of labour (The Treasury 1984: 240).

The advantages of a flexible labour markets and the need for Government to break away from the earlier tradition of managing the labour market were stressed with the Treasury arguing that:

the high levels of unemployment experienced in recent years are a symptom of the more general difficulties the economy has faced. It shows that increased employment opportunities and a better employment performance are closely related to policies designed to improve economic performance in general and the flexibility of the labour market in particular. (The Treasury 1984: 234).

Against a background of the imperative for employers to adapt to the needs of international and domestic competition following progressive liberalisation of the economy, the Employers' Federation of New Zealand began to actively push for reform of the industrial relations framework. The union movement too was pushing for reform, particularly of the wage fixing process. The 1982 wage and price freeze imposed by Prime Minister Robert Muldoon, (a prime example of the unwarranted dirigisme which characterised the Muldoon era), became a source of intense frustration for the union movement. Unions together with employer and government representatives became party to a Long Term

Wage Fixing Strategy Committee in 1983, to look into the problems associated with the wage fixing process. Now, as criticism of the rigidities of the institutional structures and procedures governing the operation of the New Zealand labour market and labour relations began to mount, an initial step was taken to remedy this situation with the abolition of compulsory arbitration in 1984. Review of the private sector industrial relations framework during 1985 and 1986, resulted in the Labour Relations Act 1987 whose coverage was also extended to the public sector by the State Sector Act 1988. The Labour Relations Act's preamble describes it as 'an Act to reform the law relating to labour relations'. One of its objectives was the facilitation of the formation 'of effective and accountable unions and effective and accountable employers organisations' (Act Preamble).

Unions were thus required to have a minimum of 1000 workers, leading to amalgamation of several unions. A form of compulsory union membership premised on the majority vote of workers and union monopoly rights of representation and coverage were, however, retained. The Act moved considerably forward in freeing up bargaining arrangements and allowed flexibility on the items which could be placed on the bargaining table. In the event of enterprise agreements being entered into under second-tier bargaining, employers were exempted from coverage by the relevant award. The long established system of dispute resolution by the Arbitration Court was also ended. The Act constituted the first step of change to the old system of industrial relations that had endured for over ninety years and had underpinned New Zealand's welfare state.

In important policy making and influencing circles the values base underwent crucial change. Increased economic efficiency chiefly through the operation of market forces and self-provision for welfare, became the predominant ideal for policy makers. 'Economic rationalism' was extended to the welfare state. The new era, however, appears to be marked by a dichotomy on the values front. A hankering for security embodied in the old value system of the welfare state, may possibly

remain in the heart of many New Zealanders. James sums up the predicament of this values dichotomy:

Labour ministers thought they were applying a technical adjustment in pursuit of old social values, new means to old ends. In fact, means can re-define ends and in this case were doing so. The value-system has changed at the policy making level. And that has been without a discernible mandate as it is normally understood in New Zealand ... Ordinary New Zealanders have come a long way across the divide from the old values to those being urged on them by policy makers. But they remain to a large extent disconnected from policy makers. They are still taking time out (1992: 284, 290).

The fundamental change that occurred in policy values after 1984, is evidenced by an examination of the priority given to full employment and employment maintenance as an economic goal. Although unemployment rose dramatically (see section 4.2.3), the reduction of inflation and inflationary expectations became the immediate objective of economic policies of the late eighties. The 1989 Reserve Bank Act cemented in price stability as the primary purpose of monetary policy. The Beveridge-type concept of full employment of job vacancies matching the number of unemployed (Beveridge 1945: 18), was cast aside and instead the full employment level was viewed in terms of the non-accelerating inflation rate of unemployment (NAIRU) which received no quantification. Endres points out that several 'tendentious discussions in official documents' repeatedly stressed the need for sustainable economic growth prior to attaining 'full employment' but did not specify what the officially recognised level of full employment was (Endres 1989: 140). Welfare is a normative concept and the value judgements of the policy makers resulted in full employment as previously defined and conceived, being dropped from the welfare-security equation.

State owned trading enterprises played a key role in the pre 1984 reform era. By 1984 they accounted for over 12% of GDP and 20% of gross investment, with some 'larger than any New Zealand publicly listed company' (The Treasury 1984: 275) and were among the country's larger employers. They included the Railways, New Zealand

Electricity, the Post Office, financial institutions, companies registered under the Companies Act e.g. Air New Zealand, Petrocorp; and Departments of State that engaged in trading activities such as the Ministry of Works and Development and Forest Services.

In policy making circles adherence to the ‘new microeconomics’ of public choice, principal-agency and contestability theories, provided the rationale for a broad change in the microeconomic role of government.⁹ The State-Owned Enterprises Act 1986, the State Sector Act 1988 and the Public Finance Act 1989, formed the legislative basis for reform of the public sector. The first act provided for corporatisation of public trading enterprises so that the newly constituted state owned enterprises (SOEs) were required to run as profit making, efficient, commercial enterprises similar to their private sector counterparts, paving the way for their privatisation. The second act imposed the requirement of clarity of objectives and improved accountability for the core public service (i.e. the service with no trading activities). The third act specified a changed focus of state sector financial management from inputs to measurable outputs and outcomes (Boston et al. 1991).

Employment shedding was, however, a necessary part of the move to greater efficiency in the public sector. Thus the 6 largest employers among the state owned enterprises (Coalcorp, ECNZ, Forestry Corp, New Zealand Post, Telecom and New Zealand Rail), had a workforce of over 66,000 just prior to corporatisation in 1987. By 1994, they or their privatised successors, had a workforce of only around 25,500 (Pawson 1996: 215). The phasing out of existing employment schemes for the unemployed, in line with the same pro-market philosophy that inspired the reform of the public sector, aggravated the immediate and adverse employment effects of the changes taking place in this sector

⁹ For succinct coverage of the main ideas covered in the public choice theory branch of economics see Shaw 1993. Principal-agency theory essentially revolves round the so called principal-agent problem. Agency relationships exist between owners (principal) and managers (agents) and also workers (agents) and owners. Both managers and workers may pursue their own interests and goals and this reduces profits for owners. For an interesting analysis of issues see Pratt and Zeckhauser 1985. In contestable markets, even though there are only a few firms, because entry is free and exit costless, performance is similar to competitive markets.

(Shirley et al. 1990: 84-6). As unemployment began to climb one of the foundations of New Zealand's welfare state - full employment, collapsed.

Fiscal reform saw radical changes to the tax system, implemented in October 1986. The Goods and Services Tax of 10% was introduced on all domestic expenditure, other than financial services, and replaced the old sales tax regime. Income tax rates were lowered from 20% to 15% at lower income levels and from 66% to 48% at the upper end. Jesson suggests that this changed taxation regime which favoured upper and middle income earners, meant the end of the historic compromise¹⁰ between capital and labour (Jesson 1989). It should be pointed out, however, that the high income tax rates of the past coupled with the operation of fiscal drag, was clearly a disincentive to greater work effort particularly for middle income earners. This was especially so when stagflation set in - in the 1970s following the first oil shock and becoming more apparent in the pre tax reform period of the 1980s.

The passage of the 1991 Employment Contracts Act (ECA) eliminated the already crumbling 'living wage' foundation of the welfare state, conferred by the old system of collective bargaining, award wages and wage relativities and compulsory unionism. The Act altered the old security regime of those in paid employment. The previous awards system had set industry minima in terms not only of the base wage rate but other standard minimum entitlements such as penal rates, meal allowances and qualifications allowances. Under the Employment Contracts Act, dramatic change in the locus of bargaining occurred with a shift from the collective to the individual (Anderson 1991). Union membership became voluntary and the Labour Relations Act 1987 was abolished. The demise of industry-wide awards and the tendency toward increased numbers of individual employment contracts meant a loss of the overall guarantee of secure, uniform work provisions and conditions. Nevertheless it is argued that the Employment Contracts Act was an important factor in enabling a rapid fall in unemployment once the economic recovery gathered pace, and

¹⁰ The welfare state is viewed as the source of the 'historic compromise'.

the leeway it gives individual employers and employees to negotiate remuneration in line with improvements in productivity is highly desirable (Dalziel and Lattimore 1996: 105). Labour market rigidities are often cited as an important factor contributing to the failure of the economic reforms initiated in the mid 1980s, to result in a turnaround in growth and employment. The importance of appropriate sequencing of the implementation of reform measures is also stressed. Typical of this line of thinking is the assertion by an IMF economist that the implementation of the Employment Contracts Act in May 1991 six years after the initiation of reform, 'should be viewed as a key factor accounting for the subdued response of aggregate output' (Ostry 1994: 15).

The declining influence and coverage of trade unions helped reinforce the erosion of the old regime of employment security. There was a pronounced decline in union density in the two years following the introduction of the Employment Contracts Act, with density falling from around 45% of the total workforce to 30% (OECD 1996b: 55). It may, however, be argued that the post 1984 reform of the union movement has removed excessive dependence of unions on state legislation and state control and this has been a change for the better (Easton 1996a).

While there are differences in opinion on the merits of the Employment Contracts Act, it however, represents a firm break with New Zealand's old style welfare state. It theoretically provides a capacity for greater self determination of welfare through employment and the ability for individual employers and workers to negotiate terms of employment. Whether or not the practice matches the theory is not certain, especially in unequal bargaining relationships. A recent report detailing the effects of the Act on pay and conditions of work, although representing a union perspective of the Act, serves to highlight both changing conditions in the labour market with intensification of casualisation and an erosion of incomes for those who work in the secondary sector of the labour market. The report claims:

The pressures created by the ECA meant that the major retail employers contributed to the ratcheting process which peg by

peg lowered the pay and conditions of retail workers. If there have been jobs created by the ECA they are part-time, casual and low-paid in the main. One major employer has a similar real wage bill compared to 1991 but 3000 more employees! (National Distribution Union 1996: 28).

Evidence on the impact of the Employment Contracts Act (ECA), however, is mixed and further research is required. Cassino (1995) for example shows that the amount of variation in wage settlements has fallen. Why the standard deviation of wage settlements fell in the post ECA era, when wage fixing was being rapidly decentralised at the firm level, is a puzzling question which is yet to be satisfactorily answered (further discussion on the ECA is provided in section 4.3.3).

The 1991 reform of the income support system was an important move in ending the old welfare state values of ensuring income adequacy for belonging and participating in the community. The April 1991 benefit cuts reduced benefit rates for most categories of beneficiaries by amounts of up to 25%. Eligibility rules for these benefits were also tightened. In the words of the Manager of the Change Team on targeting social assistance, whose report underwrote the 1991 Budgetary changes,¹¹ the objective of the changes was to reduce government provision to those in need to a 'modest safety net' (Change Team 1991, Prebble, 1991). A *minimum* safety net may however, be a more appropriate description, if the increased reliance on food banks and support from non-government welfare agencies and widespread distress after the implementation of these changes is considered. The benefit levels after the cuts were justified on the basis of Treasury calculations of an alternative poverty line (Brashare and Aynsley 1990, Brashares 1993). Easton (1995b) points out these calculations were based on a basket of food even smaller than that provided to prisoners multiplied by an arbitrary multiplier to estimate the appropriate level of benefits. The resulting widespread distress and adverse implications of the April 1991 benefit cuts have been highlighted by several reports (Auckland

¹¹ The budget presented by the Minister of Finance, Ruth Richardson, was commonly referred to as the 'mother of all budgets'. It included extensive changes to the health system and extended incomes testing to the health sector and Superannuation.

Methodist Mission 1992, Craig et al. 1992, New Zealand Council of Christian Social Services 1992, Dalziel 1993).

The implementation of radical housing policy reform commencing in 1991, marked the end of the welfare state tradition of direct state intervention in the housing market. These reforms represent a policy discontinuity and have involved a shift from 'supply-side' to 'demand-based' subsidies in housing delivery, changed institutional arrangements and an alteration of the state-private sector relations in housing market activities (McLeay 1992, de Bruin and Dupuis 1995c). The lack of affordable housing is now a problem that many low income households have to face (see for example Ministry of Housing 1994a and 1994b and Young 1995).

3.3.2 Some Features of the Well-Being Enabling State

Chiefly on the basis of the collapse of its foundations of full employment and the family wage, together with the industrial relations framework which supported it; the declining dominance of the nuclear family form on which the welfare arrangements of the wage earners' welfare state were predicated; the discarding of the implicit contract of guaranteeing a 'modest affluence' to all; and the changed economic theoretical underpinning of policy, it may be argued that there has been a fundamental transformation of New Zealand's welfare state. It is now less appropriate to refer to it as a 'welfare state'.

Table 3.1 on page 82, summarises the key differences between the earlier Keynesian welfare state (KWS) and the new post 1984 state form. It shows the erosion of the foundations of the KWS and the new macroeconomic legislative foundations of the new state form.¹² It indicates the changed income adequacy standards from income and social security levels that ensured belonging and participation in the community, to a 'modest', though better described as a minimum safety net. It also shows the changed basis of ownership and provision,

¹² The Reserve Bank of New Zealand Act 1989 and the Fiscal Responsibility Act 1994 are covered in the following section, while the Employment Contracts Act 1991 was discussed in section 3.3.1 and given further coverage in section 4.3.3.

regulation and theoretical underpinnings of policy action; and highlights crucial differences in the operation of the labour market. This table emphasises the transformation of the KWS to a new state form, whether it be re-labelled a 'well-being enabling state' as discussed in this section, or a Schumpeterian workfare state as considered in the following section.

New Zealand's current state form may be more usefully described as a 'well-being enabling state' rather than a 'welfare state'. The terminology well-being enabling state, emphasises the changed nature and approach to welfare provision. The role of the well-being enabling state is to provide the mechanisms and infrastructures by which households can secure their own well-being, on the basis of employment in a market free of state intervention. The transformation to the new form may also be viewed in terms of a re-ordering of the welfare mix away from state provision toward greater acceptance of individual responsibility for well-being. The economic and social reforms that have taken place in New Zealand since 1984, have been designed to radically shift the welfare mix much further in favour of the private sector. As McKinlay (1990) highlights, National Government statements confirm the expectation that:

individuals and families with reasonable means should attend to their own needs (Richardson 1990: 20).

This expectation is a key feature of the well-being enabling state. Furthermore, as Thorns points out, what had been viewed as collective goods since the 1930s - education, health and housing, under the pre 1984 welfare state were now 'redefined as individual goods' in order that the individual could justifiably be charged for a part if not the whole cost of the service (Thorns 1993: 64).

Targeted provision of subsidised public services and part-user charges, income support at a reduced level and with tightened eligibility rules and a minimalist tax system to act as an incentive to work and production, are all features of New Zealand's well-being enabling state.

TABLE 3.1

The Changing Nature of the Welfare State in New Zealand

Pre 1984 Keynesian Welfare State	Post 1984 State Form
<p>Foundations: Full Employment; Fordist capital-labour relations (FCLR) and Family Wage; Nuclear family form</p>	<p>Legislative Foundations: Reserve Bank Act 1989; Employment Contracts Act 1991; Fiscal Responsibility Act 1994</p>
<p>Eroding Foundations: (1973-1984) Emerging unemployment; FCLR tensions; Kaleidoscope of family forms</p>	
<p>Income Adequacy Standard: 'Belonging and participation'</p>	<p>'Modest' (minimum) safety net</p>
<p>Ownership & Provision: Theory: Market failure, nationalism, equity</p> <p>Policy: Widespread state ownership Public provision</p>	<p>Supply side thinking; Public Choice, Principal-Agency and contestability Corporatisation and Privatisation; Contracting Out</p>
<p>Regulation: Direct Controls</p>	<p>Market-based</p>
<p>Macroeconomic Theory: Keynesianism: Hicksian ISLM and Phillips Curve</p>	<p>Neo-classical Rational Expectations, Expectations-augmented Phillips curve, transparency</p>
<p>Labour Market: Centralised Bargaining</p>	<p>Enterprise Bargaining, Voluntary Unions</p>

In September 1994, the Department of Social Welfare (DSW) embarked on an initiative entitled *'From Welfare to Well-Being'* (DSW 1994a),

with the aim of rehabilitating welfare's image and seeking greater community buy-in to the longer term goals of ensuring that all citizens are able to contribute positively to society (Player 1994: 77).

The Department now identifies nine welfare interest area and defines respective desired well-being outcomes¹ (DSW 1994b). In the light of this programme, the terminology of the well-being enabling state appears particularly apt.

Underpinning the transformation of the welfare state is also a change in the notion of what constitutes well-being. The concept of well-being is no longer perceived in terms of the government ensuring levels of income to 'belong and participate in the community', but rather of government provision of 'a modest safety net' (Prebble 1991) which as discussed in the previous section may be described as a minimum rather than a modest safety net. The old values of the welfare state, although imperfectly realised, of creating a more equal, inclusive society appear to be swamped as New Zealanders are urged to pursue private welfare provision in the well-being enabling state.

As indicated in the simple model delineated in section 1.2.3, the level of disposable income determines the level of family welfare procured through the market. In the decade 1981-1991, however, after tax incomes of households in the lowest 10% of the income range fell by an average of 20%, but average after tax incomes of those households in the highest 10% of the income range fell by only 5% (Mowbray 1993), indicating that some portions of the population have a lesser ability to secure welfare through their own capabilities. Following the 1991 income support benefit cuts, there has been a 40% rise in the number of households living below the poverty line over the two year period 1989/90 to 1991/92 (Easton 1993: 11). Statistics on the increasing

¹ In the restructured public sector, core Public Service Departments render services described as 'outputs' and the results of these outputs are their 'outcomes'.

use of foodbanks, often cited as an indicator of rising levels of relative poverty among New Zealanders, show that in the first quarter of 1990 the Salvation Army distributed around 1400 food parcels. In the same quarter of 1996, this had risen to around 16,000 (Bilby 1996). Widening inequality in the distribution of income and worsening relative poverty levels have been shown to be an outcome of the benefit cuts (St John 1994a, Easton 1993). Other studies have shown an increase in inequality in the distribution of total household income between 1982 and 1993 (Mowbray 1993, Mowbray and Dayal 1994, New Zealand Planning Council 1988 and 1990). More recent research using data from the Household Economic Survey², examines trends in real individual earnings between 1984-1995 to show significant increases in the dispersion of weekly earnings across all employees, including full-time employees. Since the inequality of weekly earnings among full-time employees also increased, this rising dispersion was not due simply to the growth in share of part-time employment which took place between 1986-1990 but did not continue into the 1990s (Dixon 1996b). The aggregate dispersion of pre-tax hourly earnings between 1984 and 1994, however, shows little change (Dixon 1996a). The researcher nevertheless acknowledges that it is likely that the tax and benefit reforms of the 1980s and early 1990s, did lead to greater inequality in the distribution of after-tax incomes (Dixon 1996a: 84).

The Luxembourg Income Study (LIS) provides comparative data to assess changes in household adjusted disposable income across several OECD countries. Although New Zealand was not included in the LIS study, subsequent researchers have given New Zealand a middle ranking among the LIS countries in the mid 1980s (Atkinson et al. 1993, Saunders 1994). A further study on the basis of data for the 1980s, shows worsening inequality in the later part of decade concluding that:

income inequality has been growing more rapidly in the UK than in any other country (from a total of 20) except New Zealand (Joseph Rowntree Foundation 1995: 66).

² This is an annual survey of around 3000 people in current wage and salary employment, living in private households.

While pointing to the dangers of international rankings, Easton contends that it is likely that the Rowntree conclusion would also apply to the early 1990s (1996c: 133). Furthermore, disparities between Maori and non-Maori continue in terms of the key indicators of incomes, housing, educational qualifications, labour force participation, unemployment and health (James 1995).

When qualifications are held constant, Maori are still more likely than non-Maori to earn lower incomes (1991 data) (James 1995: 112-114).

Labour market disadvantage of Maori is discussed in section 4.2.4.

In its 1993 *Briefing to the Incoming Government*, the Treasury explicitly states that policy should focus on raising skill rather than on redistribution:

The focus of policy should be on improving the learning opportunities for those on the lowest incomes. Focusing instead on reducing the dispersion of income could lead to policies that run counter to real aims.... the focus should be on improving the opportunities to work and acquire skills, since this will better spread the gains of economic recovery in a pro-growth way' (The Treasury 1993: 83).

The above recommendation does appear to have been taken on board. The education sector has been an important area of scrutiny and reform in New Zealand. A focus on education and training should, however, be viewed as a prerequisite of any post-Fordist state. Today, global forces have increased the value of skills that match with the growing number of knowledge and technology based jobs. By contrast, low-skilled jobs are both low paying and slow growing. Continuing rapid technological development and long term structural change reinforced by the post 1984 economic reform which opened the economy to heightened competitive pressures, highlights the need to strengthen New Zealand's human capital base. The role and performance of the well-being enabling state in this connection is discussed in chapter 5 of this study.

The 1994 Budget, announced a significant surplus on the government's adjusted financial balance for the previous financial year, for the first time in seventeen years, as well as projected substantial financial surpluses for the next three years yet failed to sufficiently address the problem of growing inequality and poverty. The major thrust of this Budget was a rapid reduction of public debt. While the economic prudence of debt reduction is not in doubt, the short term speed of debt reduction as determined by the fiscal strategy of the National government, is further confirmation that the equity oriented redistributive role of government, an implicit goal of the welfare state, is of lesser priority in the well-being enabling state.

Increased Family Support³ for second and subsequent children under the age of thirteen and the raising, from 1 October 1994, of the income level for abatement of Family Support from \$17,500 to \$20,000, were the chief redistributive measures for low income families in the 1994 budget. The annual cost of these two measures was \$67 million but this should be set against the then projected surplus of \$730 million for the coming financial year and surpluses of \$2.49 billion in 1995/96 and \$4.53 billion in 1996/97. Moreover it has been highlighted that even with the improvements made to family support, many families suffered a severe erosion in the purchasing power of their family assistance compared to its real 1986 level. Thus for example a three child family with children under thirteen and on average weekly earnings, had a percentage loss in the annual value of their support in 1994/95 dollars of 51% (St John 1994c: 13,14).

The tax and social policy package announced in 1995, which came into effect on 1 July 1996,⁴ further affirms the strategy of encouraging market sourcing of welfare. The tax cuts directly provide for enhanced procurement of welfare through increased disposable income, and in terms of the family welfare model of Section 1.2.3, a greater share of w_m , in the welfare mix. Together with the accompanying social policy

³ Family Support is a cash payment to low income families, administered through a per child tax credit. The universal Family Benefit payment of \$6 per week per child was amalgamated in 1990 with Family Support and targeted on the basis of income.

⁴ The second instalment of tax cuts was intended to come into effect in 1997.

package their purpose is also to act as an incentive to greater participation in paid employment. The new Independent Family Tax Credit introduced in the package, for example, gives a clear indication of the government belief that work effort on the part of low income families must be rewarded and private provision of welfare encouraged. Even in the prefixing of this payment with 'independent' there is an emphasis on a movement away from state dependence for welfare provision to self provision chiefly on the basis of market employment. This new social security payment is restricted to the 'deserving poor'. The rationale underpinning the independent family tax credit⁵ is discussed in section 4.4.2 of this thesis.

Central to the transformation of the welfare state is a changed employment policy regime. Employment policy as discussed in chapter 4, and strategies to build New Zealand's human capital, as a subset of this employment policy (covered in chapter five), are crucial aspects of the well-being enabling state. The institution of a large scale post-school education and training scheme - ACCESS, in 1987 (see section 5.3.3), marked the end of direct job creation by the state as a policy option for mitigating unemployment and the adoption of skill enhancement as the strategy to enable the unemployed to be ultimately responsible for their own well-being through enhancing their potential for employment in a deregulated labour market. The changed employment policy direction is also acknowledgement of the importance of education in an increasingly global, technologically oriented society. User-pays in the tertiary education means that universal access to fully state funded education, an accepted principle of New Zealand's welfare state, is also now inapplicable.

The Government's *Hand-Up Programme* which includes employment measures as delineated in *Focus on Employment* (NZ Government 1995), and the tax and social policy changes which took effect on 1 July

⁵ A criticism levelled against this measure is that it is based on the premise that 'some children are more worthy than others by virtue of the work status of their parents' (St John 1996).

1996, is indicative of the transformation of the welfare state to a well-being enabling state. The principles of the programme are:

- strengthening the incentives for those currently on benefits to actively involve themselves in the growing work opportunities available, or education and training activities that will improve their work skills;
- encouraging those currently on benefits to accept responsibility for taking advantage of the opportunities on offer;
- providing additional opportunities for people to move into paid work (NZ Government 1995: 6).

These principles fit in well with the goal of the well-being enabling state which is to ensure private provision of welfare through labour market participation in a deregulated labour market, rather than through direct state provision.

3.4 A Schumpeterian Workfare State?

Given that New Zealand has moved on from Fordism⁶, the emergent state form of this new phase appears to be a near perfect fit to the Schumpeterian workfare state model, based on a neo-liberal strategy, as outlined in section 2.3.5. New Zealand's open economy, the priority given to maintenance of international competitiveness through the pursuit of tight inflation control and the subordination of social policy to the demands of labour market flexibility conform to the characteristics set out for the Schumpeterian workfare state. The adoption of 'an extreme version of monetarist ideology' (Hazeldine 1994: 19), probably makes New Zealand a close version of the neo-liberal typology.

⁶ Spoonley et al. contend that since 'the issues of regulation and social or cultural co-operation have not been addressed' Zealand has moved from Fordism to **flawed** Post Fordism (1993: 14). O'Brien and Wilkes on the other hand maintain that 'what New Zealand is experiencing is not Fordism or PostFordism but NeoFordism, if NeoFordism is understood to mean a mode of economic growth which includes important components of mass production and class divisions, along with a minority component of niche production, the rise of social movement and a shift in the class structure in this arena. Both Fordism and PostFordism are likely to coexist simultaneously under NeoFordism (1993: 183).

Comparing the programmes for economic reform in Australia and New Zealand, Easton and Gerritsen contend that:

the Australian Labour government chose a consensual-cum-‘corporatist’ strategy, whereas the New Zealand Labour government chose a ‘commercialist/monetarist’ one’ (1996: 23).

They assert that the reasons for this divergence include the differing institutional structures, political circumstances of the respective Labour parties and their relationship with their union movements and different personalities involved in policy formulation in the two countries. The strategy adopted by the New Zealand Labour party thus created the pre-conditions for the extension of ‘economic rationalism’ into the welfare state under the National government in the post-1990 period. This contrasted with the Australian experience where:

the bargained Australian Labour approach meant that ‘economic rationalism’ never really gained more than rhetorical primacy (Easton and Gerritsen 1996: 24).

The legislative triumvirate of the Reserve Bank of New Zealand Act 1989, the Employment Contracts Act 1991 and the Fiscal Responsibility Act 1994, are the new cornerstones of New Zealand’s transformed welfare state, be it titled a Schumpeterian workfare state or a well-being enabling state.

Under the 1989 Reserve Bank Act, the primary responsibility of the Reserve Bank is the management of monetary policy in order to achieve price stability. Previously, for over two decades, the Bank was governed by the Reserve Bank Act 1964 and its subsequent amendments. This Act had stated that monetary policy should be related to the desirability of promoting the highest degree of production, trade and employment and the maintenance of a stable internal price level. The new 1989 Act requires the Minister of Finance and the Governor of the Reserve Bank to agree formally to specific monetary policy targets. These are set out in a document called the Policy Targets Agreement signed by the Minister of Finance and the Governor of the Reserve Bank. The Reserve Bank is free to conduct monetary policy without any further instruction. The

Reserve Bank thus has autonomy, within the accountability requirements of the Policy Targets Agreement. The first Agreement signed on 2 March 1990, required the Governor of the Bank to ensure monetary policy is conducted to achieve price stability, specified as a zero to two per cent annual increase in the Consumer Price Index by December 1992, and maintaining price stability thereafter.

Critics argued that the Reserve Bank's policy approach to achieving its legally specified inflation target was too costly in terms of both growth and employment (see for example, National Bank of New Zealand 1990). In fact, it is doubtful if the Bank now even considers the impact of its monetary policy settings on output and employment. As a recent article in the Reserve Bank Bulletin observed,

... in essence, the new monetary policy framework tells the policy implementers to ignore the short-run output and employment consequences, because the economy will be better off in the long run as a result, and because if the implementers do not ignore these consequences, the desirable long-run position will never be reached (Archer 1994).

The article does point out, however, that when the economy is subject to a supply shock and monetary policy could engender boom or recession, the Policy Targets Agreement does allow for deviation from the required price stability band.

The Employment Contracts Act (see also discussion in sections 3.3.1. and 4.3.3), was designed 'to promote an efficient labour market' (Act preamble), and the Fiscal Responsibility Act to cement in responsible fiscal management and transparency. Initially put forward to provide for stringent accounting and financial reporting and pre-election economic and fiscal updates, the Fiscal Responsibility Act was changed to include principles of responsibility which future governments will be obliged to observe. The Act specifies that total Crown debt be held at prudent levels;⁷ operating expenses must not exceed operating revenue on average, over a reasonable time period; positive Crown net worth must be maintained; fiscal risk managed prudently; tax rates must be

⁷ While the 'prudent' level of debt is not defined, this has been indicated by the National Government to be a net public debt level in the range of 20-30% of GDP.

reasonably predictable and a defined cycle and standards of financial reporting observed. Governments are required to explain how their fiscal policies meet or deviate from these standards. The Fiscal Responsibility Act represents an embodiment of principles dear to the heart of Public Choice theorists who emphasise that the political system and bureaucracy tends to promote excessive public sector growth and recommend a fiscal constitution to restrict the power of elected bodies. Niskanen (1992) for example suggests an upper limit for the public debt which can only be increased by a two-thirds majority of both Houses of the U.S. Congress.

The radical restructuring of the business of government and rapid programme of privatisation pursued in New Zealand (see Boston 1991, Duncan and Bollard 1992 and also section 3.3.1 for details), also links in well with the neo-liberal Schumpeterian workfare state typology.

Similar to other countries that fit in with the typology - the UK and US, where sharply rising earnings inequality has been recorded (OECD 1993a and OECD 1996a), in New Zealand too, the distribution of individual wage and salary earnings and total household income has widened (see section 3.3.2). Unlike their counterparts in the United States and the United Kingdom, however, less skilled and less educated workers in New Zealand have not experienced substantial reductions in their relative earnings (Dixon 1996b).⁸

Workfare principles are also being incorporated into the New Zealand benefit system. Extended targeting of benefits has been justified on the grounds that it is a cost effective method of utilising welfare spending to mitigate poverty with greater benefits being provided to those on low incomes while simultaneously reducing total spending (Shipley 1991). Furthermore, although traditionally only unemployment beneficiaries

⁸ It is suggested that since the labour force share of workers without formal qualifications has reduced by around a third due to falling labour force participation and changes in educational patterns, it is possible that there has been an inward shift of the supply of these workers which has helped prevent the decline in their relative wages (Dixon 1996b). The marked increase in the demand for these workers after 1992 as a result of the economic recovery would also have mitigated the tendency for widening wage differentials (Dixon 1996a).

were required to engage in full-time work search, new work search or training requirements moves New Zealand a step closer to the workfare model associated with the United States. Now other beneficiary categories as well as spouses of unemployment beneficiaries,⁹ have to meet work requirements, effective from 1 April 1997.

Although the reform process corresponds to a neo-liberal strategy, in New Zealand there is no firm industrial policy and favoured activities are not subsidised or afforded concessions in terms of state tax expenditures, as has been claimed to be a feature of the Schumpeterian workfare state. Use of the term Schumpeterian could also imply active support of entrepreneurship and innovation. If this was to involve subsidies, import restrictions, tax concessions or other forms of market intervention, it would be at odds with New Zealand's strong market liberalisation stance. Search for a better descriptor of the New Zealand's transformed welfare state than 'Schumpeterian workfare state' is thus warranted.¹⁰ Furthermore, rather than attempting to fit the new state form into generalist typologies, the more tailored to suit New Zealand circumstances, 'well-being enabling state' terminology, developed in this thesis is preferable.

⁹ Announced in the 1996 Tax Reduction and Social Policy Programme (Birch 1996a), those receiving the Domestic Purposes Benefit (DPB) or Widows' Benefit: whose youngest child is 14 or over, will be required to be available for work and engage in part-time work search or training leading to employment; or be undertaking regular employment, education or training or a combination thereof, for at least 15 hours per week; whose youngest child is aged 7-13 and who have been receiving a benefit for 12 months or more, will have a mandatory annual interview with Income Support Services so that appropriate advice is made available to plan steps toward employment. Those on a DPB who are caring for a sick or infirm person will be required to attend a similar interview. Additionally spouses of unemployment beneficiaries who have no children will need to engage in full-time work search and those whose youngest child is aged 7-13, will have to attend a mandatory interview.

¹⁰ It is very possible that New Zealand is a closer fit to a 'Ricardian workfare state'. Details on the features of this state form will be elaborated later in 1997 when a research project funded by the Danish Social Science Research Council gets under way. The main researchers attached to the project are Bob Jessop of the University of Lancaster and Klaus Neilsen and Jacob Torfing from Roskilde University (personal communication).

3.5 Chapter Conclusion

A selectivist approach to welfare has always been part of the New Zealand tradition. In the past, the desire for wage and employment security took precedence over establishment of a more institutional system of welfare. This led to the development of a ‘wage earners’ welfare state’ (Castles 1985), based on twin foundations of full employment and mechanisms to ensure a ‘family wage’ with compromise between state, capital and labour. This combined with an economy which was overly protected and regulated, predominantly primary product exporting, mainly to the United Kingdom, resulted in a more loosely coupled welfare state system (see section 2.3.4), making New Zealand more vulnerable to global change and amenable to the rapid introduction of a neo-liberal strategy¹¹, than other countries such as Sweden, where more comprehensive welfare forms prevailed.

There is no doubt that the performance of the New Zealand economy progressively worsened in the 1973-1984 period (see section 3.2.4). The economy was unable to cope with changed international circumstances in the absence of structural adjustment. Moreover, as contended in chapter two, the socio-institutional framework too needed to adapt to the new phase of capitalist development. This framework which had evolved since the 1890s, had contributed to the development of New Zealand’s mixed economy, which by the latter part of the 1970s was as McLean described:

a market economy where markets were seldom permitted to operate efficiently, together with a centrally-planned economy without a central plan. The allocation of resources is to a large extent determined neither by market mechanisms nor government decision, but by historical patterns fossilised in institutional procedures (McLean 1978: 14,15).

By early 1980s, it was evident that reform of the economy was essential. A series of reforms commenced in 1984. By 1996, the role of government in the economy had radically altered. The pre 1984

¹¹ Further contributory factors, which included constitutional, political party features, party relations with unions and personalities, were mentioned in section 3.4.

welfare state has transformed into a new state form. Furthermore, the present environment of individual employment contracts and wage uncertainty, represents a departure from the old values of economic security, even if only at the policy making level, and a shift of the balance of power toward capital. Disintegration of full employment, a changed climate of wage bargaining, less attention paid to distributive goals and a reform agenda based on 'a consistent theoretical framework' (Bollard et al. 1996: 19), all contribute to making the term 'welfare state' no longer appropriate to describe the state form and current system of welfare provision in New Zealand. A 'well-being enabling state' is a better descriptor of this transformed welfare state operating in an era characterised by a new technological style and heightened globalisation.

4

Employment: The Key to Well-Being

4.1 Chapter Introduction

Chapter 3 suggested that with the collapse of the full employment and family wage foundations, together with the change in the state's policy mechanisms to maintain these foundations, New Zealand's welfare state has been transformed to a new state form which may be better described as a 'well-being enabling state'. The purpose of this chapter is firstly to trace the emergence of unemployment and the phases of unemployment in New Zealand, to highlight the breakdown of full employment which underpinned of the 'old' welfare state. Secondly, it discusses the progressively changing employment policy regime since the mid 1980s, to point to the new policy direction as a key facet which distinguishes today's well-being enabling state.

The ability of an individual or household to make independent provision for well-being, is strongly influenced by income levels which in turn are affected by employment status. This common sense notion is supported empirically. For example, a forceful conclusion arising from research of the Income Distribution Group of the New Zealand Planning Council was that:

access to paid work is one of the most important determinants of the income level of individuals. Paid work, which is full-time and continuous, not only protects the earner from poverty, but also allows the accumulation of savings and credit worthiness which can be used to acquire wealth (NZPC 1988: 82).

In the past, a feature of New Zealand's pre-1984 welfare state, was interventionist policies directly aimed at ensuring full employment. Direct action through public sector job creation would address any

problems of cyclical unemployment (Mulengu 1994). Since the late 1980s, however, the direct state response to unemployment has involved a sharp reduction in job creation schemes¹ which were an accepted welfare state solution to unemployment and a move to a more active approach to training and skill acquisition for the unemployed. As unemployment became entrenched, however, in New Zealand, as in other OECD countries, the concept of social exclusion has come to be increasingly associated with unemployment, is used interchangeably with exclusion from the labour market, and contrasted not with inclusion but with integration into the labour market (Levitas 1996). The current emphasis is on the responsibility of individuals themselves to work toward 'employmentship' rights, (Sinfield 1986), rather than expect citizenship rights to welfare. Employment policies of New Zealand's well-being enabling state are thus intended to enable or in some instances induce individual action to secure participation in the labour market.

This chapter comprises the second in part two of the thesis which deals with national change. It takes the discussion to its third level of analysis, in terms of figure 1.1 presented in the Introduction of this thesis. Figure 4.1 below, shows the employment policy focus of the analysis and also shows education and training policy to be part of those employment policies which enhance the capabilities of individuals to effectively move into market employment. This sub-set of employment policy, shown as the lighter shaded part of figure 4.1 is, however, chiefly discussed in the following chapter - five.

¹ The most recent large scale scheme was the Project Employment Programme (see Appendix 1: vi), which ran from 1980-1987.

FIGURE 4.1

The Employment Policy Focus of the Multi-level Analysis



A complete reversal of direction in employment policy in the post 1984 era, has policy of the well-being enabling state distinguished by:

- Modification of the income support or benefit payments system to reduce the attractiveness of unemployment relative to market employment.
- Use of the taxation system to provide an incentive to labour market participation.
- Moves to decentralise wage bargaining and deregulate the labour market, culminating in the passage of the 1991 Employment Contracts Act.
- A return to favour of active labour market policies as a means of integrating segments of the labour force, particularly the long-term unemployed, into paid employment.
- provision of limited social protection for the low paid in employment.
- Increased emphasis on education and training in order to meet the nation's need for a highly skilled labour force and to raise skills or prevent skill atrophy for the unemployed.

The implications and theoretical underpinnings of these employment policy changes are discussed in this chapter. The last listed policy change which focuses on education and training is, however, left for discussion in the following chapter five.

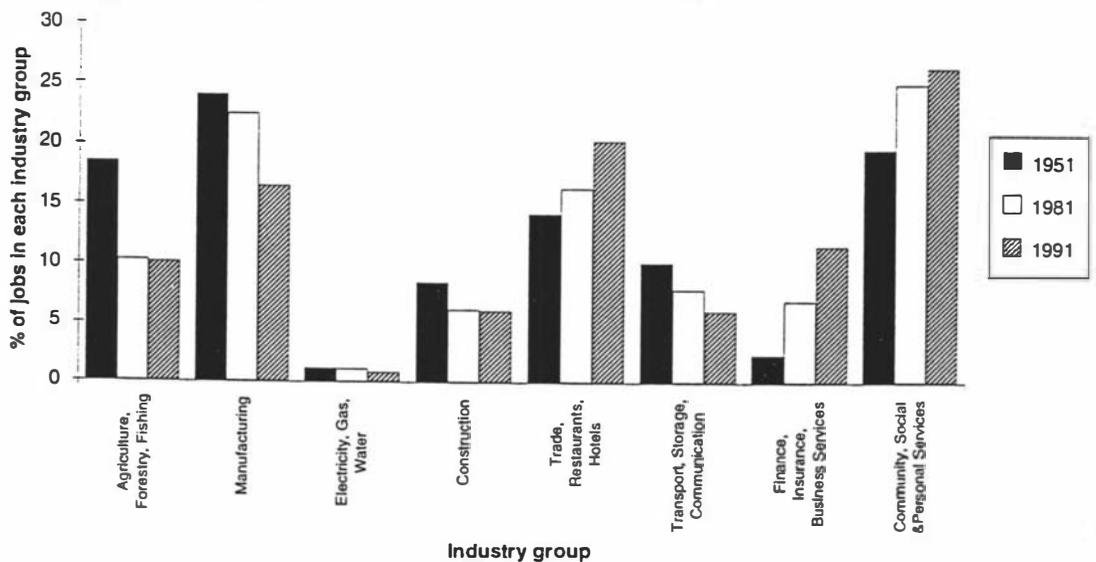
4.2 Features of the Labour Market

4.2.1 Trends

Increased labour market participation by women, the change in the organisation of work with more part-time, temporary and casual jobs available, the rising incidence of long-term unemployment and changing employment shares by industry group (as shown in figure 4.2), are among the longer term labour market trends in New Zealand (see PMTF 1994b: 18-23 and 27-41).

FIGURE 4.2

Changes in Employment by Industry Group (1951-1991)



Source: Statistics New Zealand, Censuses

Part-time employment has increased significantly since the mid 1980s. In the March year 1987 to the March year 1995 there has been a decrease in the number of people working full-time i.e. working 30 hours or more per week, by 3.6% but those working part-time the has increased by 28.9% (Statistics New Zealand 1996: 285). The increasing importance of part-time work has been such that even in periods where full-time employment has fallen, part-time jobs have continued to grow. Thus for example, in the most recent quarter, of September 1996, although employment continued to grow, this was on account of an increase in the part-time workforce which increased by 25,000 people

while full-time workers fell by 10,000 over the quarter. These figures, together with the changing industry composition of employment (figure 4.2), could be interpreted as indicative of the changing way work is being organised within a changed industry structure of employment, in a new phase of capitalist development.

4.2.2 The Emergence of Unemployment

The goal of full employment was a principle tenet of the Keynesian welfare state (See Section 2.2.3). In New Zealand, the accepted public interpretation of full employment, which remained current throughout the 1950s and 60s and into the early 1970s, was that full employment required the elimination of any registered unemployed.² This was a 'total employment concept' (Scollay and St John: 509). Registered unemployment was always kept below 1%³ through the operation of public sector job creation schemes coupled with Keynesian macroeconomic management and an import substituting industrialisation strategy pursued within a regime of high effective rates of protection. Dalziel and Lattimore claim that:

the almost negligible rate of unemployment throughout the 1960s and the first half of the 1970s is one of the success stories of economic management in New Zealand over the period (1996: 13).

The opinion of Dalziel and Lattimore is, however, a debatable one, especially in the light of the overall favourable international circumstances which underpinned the economy. The inefficient implementation of New Zealand's industrialisation strategy, linked to a system of import licensing, is one example where the prudence of

² Even though the Phillips curve trade-off between inflation and unemployment was given increasing attention by economists in the late 1960s and early 1970s, a survey of official attitudes to unemployment in New Zealand, showed that the Phillips curve discourse had little bearing on official thinking (Endres 1984).

³ In the 1950s and early 60s the number of registered unemployed were usually so few (in March 1955 for instance there were only 5 people receiving the unemployment benefit), that a common anecdote was that the Ministers of Labour knew each of the unemployed by name.

economic management in New Zealand during this period may be seriously questioned.⁴

The first oil shock of 1973 together with Britain's entry into the European Community in the same year, marked a dramatic change in external circumstances for New Zealand. The deteriorating terms of trade was soon reflected in a deficit on the current account of the balance of payments of unprecedented magnitude. Attempts to adjust to the changed, unfavourable external economic climate, chiefly through increased export subsidies in the absence of changes to the protectionist import licensing regime, were a failure. The performance of the economy declined significantly. Unemployment began to make a definite presence in New Zealand from the mid 1970s.

4.2.3 Phases of Unemployment

The Prime Ministerial Task Force on Employment (PMTF)⁵ which was set up to address 'the biggest challenge facing New Zealand' - unemployment, distinguishes three distinct phases to New Zealand's unemployment problem:

- Mid 1970s to mid 1980s
- Mid 1980s to 1992
- 1993 onwards (PMTF 1994a: 4)

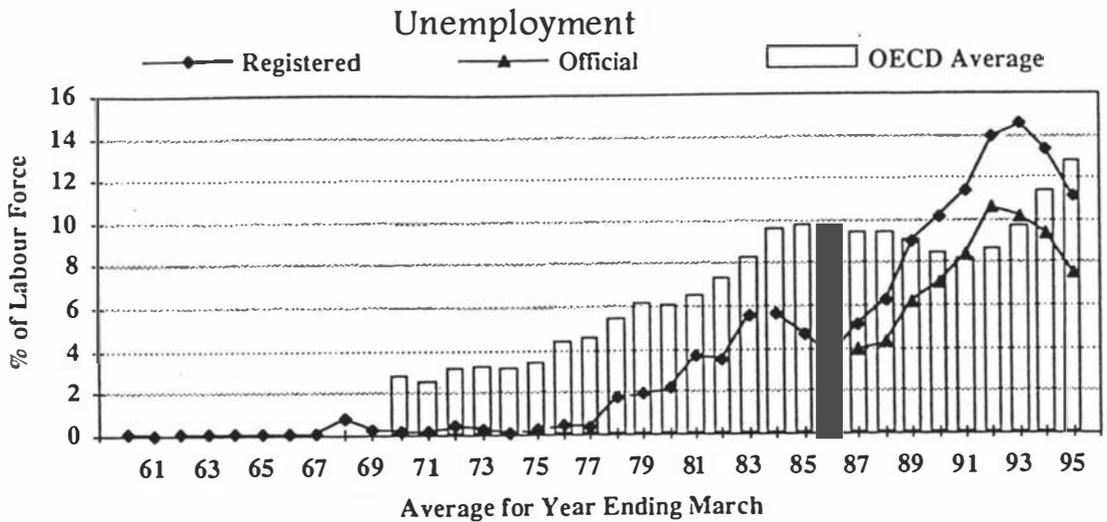
Figure 4.3 shows New Zealand unemployment levels relative to the OECD small country average and portrays the changing unemployment situation. The official unemployment rate corresponds to the standard International Labour Organisation (ILO) definition and is the Household Labour Force Survey (HLFS)⁶ statistic.

⁴ For a good account of differences in implementation of import substitution strategies see Ranis 1981.

⁵ The PMTF, which had its terms of reference collectively set by the National Government and the Labour and Alliance opposition parties, was convened in February 1994. Its objective was to develop a comprehensive set of proposals to ensure that **all** New Zealanders had the opportunity to participate in paid work.

⁶ The HLFS commenced for the December quarter of 1985.

FIGURE 4.3



Sources: Statistics New Zealand PC-INFO Series HLFQ.SAB3AZ (official unemployment); Table J4, Reserve Bank of New Zealand *Bulletin* (registered unemployed); OECD *Economic Outlook* June 1994, Annex Table 20 (OECD average) cited in Graph 2.3 Dalziel and Lattimore 1996.

1. The mid 1970s to mid 1980s

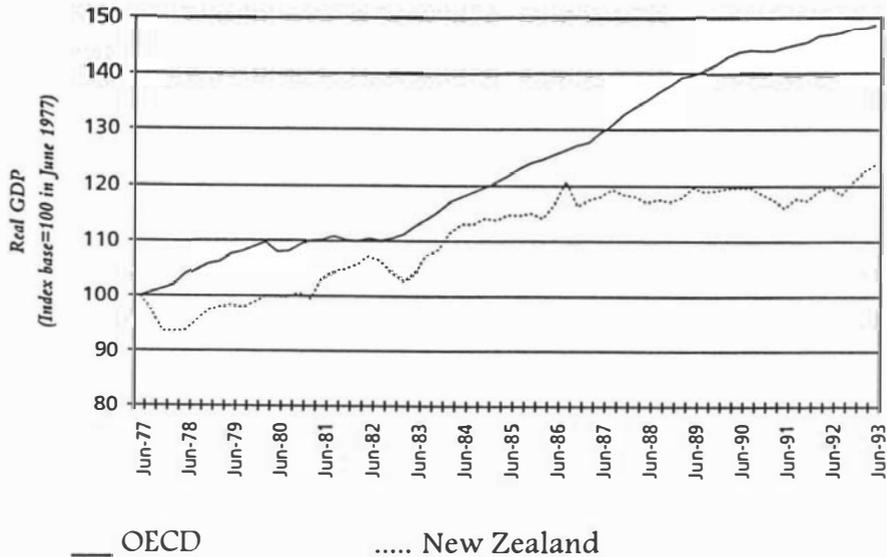
This period is marked by the failure of the economy to efficiently adjust to a changing external environment and the continuation of interventionist policies in an attempt to insulate the economy from these changes. The initiation of ‘Think Big’ projects (see section 3.2.4), with the ‘Government gambling large quantities of taxpayers money on success’ but whose ‘contribution to the balance of payments was probably negative’ (Wooding 1993: 105); declining competitiveness of New Zealand’s businesses and poor growth performance relative to the OECD average⁷, as shown in figure 4.4, are features of the period.

By attempting to resist change, the country was ill-prepared for international competition and the effects of technology (PMTF 1994a: 5)

Unemployment climbed. As figure 4.3 shows, the rise in unemployment which commenced in 1977, continued throughout the period. Unemployment nevertheless remained below the OECD average.

⁷ There was however a global economic slowdown during this time as shown in table 2.2.

FIGURE 4.4
Real GDP Growth: New Zealand and OECD



Source: Statistics New Zealand cited in PMTF 1994a: 5

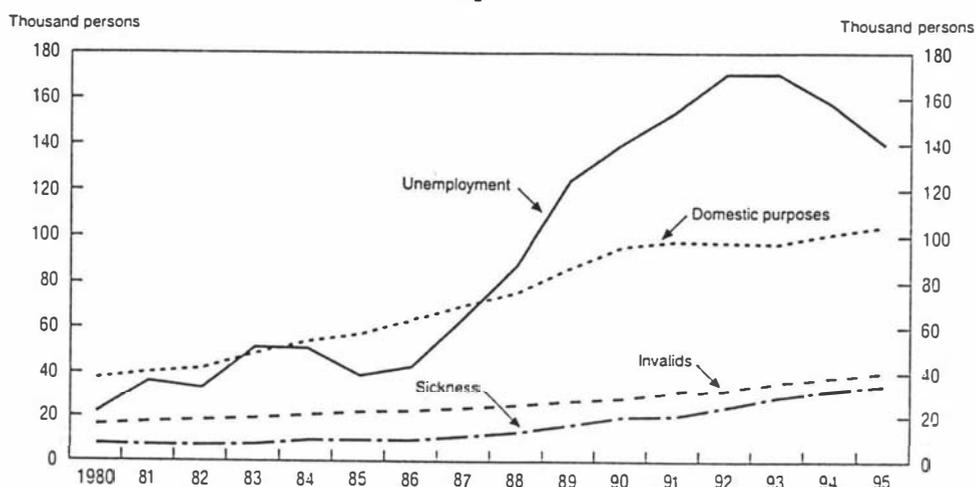
The Government's direct response to the rise in unemployment was the hurried initiation of job creation schemes, under the auspices of the Department of Labour. These schemes were 'frequently ill-conceived, expensive and poorly managed' and the subject of much criticism. Subject to lesser public comment, however, was the labour absorption that occurred through the long-term public works programme of public trading enterprises like the Railways, the Forest Service and the Ministry of Works (Shirley et al. 1990: 30).

2. Mid 1980s to 1992

The unemployment problem of this period is described by the Prime Ministerial Task Force in terms of 'the cost of rapid change' (PMTF 1994a: 5). From the mid 1980s, the rapid and dramatic programme of economic reform and deregulation, public sector reform and privatisation, the effects of disinflationary domestic policies followed by a downturn in the international economy, saw unemployment soar from 4% in 1985 to a peak of 11.1% in 1992, with the rise occurring chiefly from 1987 onwards (see also figure 4.3 and Appendix 2 figure 1). The

rapid rise in unemployment after 1987 was, however, initially mitigated by a marked fall in the labour force participation rate (see Appendix 2 figure 2). Rising unemployment was accompanied by a substantial growth in the numbers receiving other benefits, namely the domestic purposes, sickness and invalids benefits (see figure 4.5 below). Of particular concern also was the growing proportion of long-term unemployed. The share of those without employment for more than a year in total unemployment peaked at 50% in 1992, which was high relative to most OECD economies (OECD 1996: 50).

FIGURE 4.5
Number of People on Benefits



Sources: Department of Social Welfare, Income Support Services

This period is also marked by the enactment of the 1991 Employment Contracts Act which put in place the legal framework to make New Zealand's labour market one of the most deregulated in the OECD.

3. 1993 Onwards

1993 is a dividing line. It saw the beginning of strong employment growth and a marked decline in unemployment. As table 4.1 indicates, all labour market indicators improved with labour supply and demand expanding and unemployment falling dramatically. The substantial increase in the working age population during the period, however, meant that even though employment growth was strong from 1993 and

the job losses of the 1987-91 period were recovered by mid-1994 (OECD 1996b: 10), unemployment still remained above its levels up to the mid-1980s. The rising trend in the number of those claiming other benefits also continued (see figure 4.5). The share of long-term unemployed (over 12 months), however, began to trend downward to reach just over 25% in 1995.

TABLE 4.1
Recent Labour Market Indicators

	1992	1993	1994	1995
Working age population ¹	1.1	1.1	1.4	1.6
Participation rate ² (%)	63.3	63.3	64.1	64.4
Labour force ¹	0.4	1.1	2.7	2.6
Unemployment rate(%)	10.3	9.5	8.1	6.3
Employment ¹	0.4	2.0	4.3	4.7
Employment ratio ³	56.8	57.3	58.9	60.7

1. Annual percentage change
 2. Labour force/working age population.
 3. Employment/working age population
- Source: Statistics New Zealand

The fall in unemployment levels appears to confirm the link between output growth rates and the aggregate demand for labour.⁸ Real GDP assumed a growth path on an annual basis from June 1992, surpassed 2% by December 1992, 4% by September 1993, reaching 6% by the June year of 1994, to herald a period of sustained economic growth for New Zealand (PC-INFOS Series SNBA.SZ999, see also figure 4.4). Since

⁸ In the post 1984 period, once markets became 'freer', inflation and unemployment have also shown a correlation, with the two tending to move inversely. Mainstream macroeconomic theory in terms of the expectations augmented Phillips curve, predicts such a link (see for example Chapple et al. 1996: 140-141, 149-150).

it may be argued that the labour market is already close to, or at, the equilibrium level of employment, it is unlikely that future economic growth will cause any further significant fall in unemployment levels.

The PMTF defines the equilibrium level of employment as:

the rate of employment which remains when the economic forces leading to a higher or lower rate of employment are balanced. Once this point is reached, further growth will not, by itself, lead to sustainable reductions in the level of unemployment (PMTF 1994b: 44).

Pointing out to the lack of empirical work and the methodological and data problems which would make such work 'highly speculative', the PMTF further suggests that this rate may be, in line with overseas evidence, in the order of 5-7% for New Zealand.⁹ Furthermore, the equilibrium level of unemployment is often taken to be equivalent to the non-accelerating inflation rate of unemployment (NAIRU) and,

if financial policy ensures that inflation *is* stable, then unemployment will adjust to its equilibrium level in the long run (Layard et al. 1994: 18).

Since the requirements of the 1989 Reserve Bank of New Zealand Act, currently ensures that monetary policy is directed to the maintenance of price stability within an explicit inflation target, it may be inferred that the level of unemployment is tending to its equilibrium level (around the 6% mark).

4.2.4 Ethnic Dimensions of Unemployment

Ethnic minority groups¹⁰ are presently over-represented among the jobless. The level of recent job creation has been inadequate to deal with the severity of ethnic unemployment. Recent figures from the Household

⁹ Sloan (1994: 10) is highly critical of the PMTF discussion of the equilibrium rate. She argues that the PMTF shows little understanding of the factors that affect this rate. In particular, the fact that the equilibrium rate tracks the actual rate of unemployment is not understood.

¹⁰ The working age population with 10% New Zealand Maori, 4% from the Pacific Island Group and 83% European/Pakeha, is reflective of New Zealand's multi-racial society.

Labour Force Survey (HLFS) for the September 1996 quarter, show a national seasonally adjusted unemployment rate of 6.3%. Similar low unemployment levels have prevailed since June 1995 when the unemployment level fell to 6.3%, the lowest level recorded since December, 1983. These low rates reflect the strong trend in job growth which has occurred over the last five years. A closer examination of unemployment figures however, show continuing significant differences between European/Pakeha rates of unemployment and those of New Zealand Maori and the Pacific Island Group. For the September 1996 quarter, the Pakeha rate of unemployment was 4.5%, compared with the New Zealand Maori rate of 15.9% and the Pacific Island rate of 14.3% and over the year to September 1996, only the European/Pakeha group experienced statistically significant growth in employment (Statistics New Zealand, HLFS). This divergence in ethnic rates of unemployment is a matter of serious economic and social concern. Figure 1 in Appendix 2 shows the variation in official unemployment rates of the different groups.

Unemployment rates, are an imperfect indicator of the degree of labour market disadvantage since labour force participation rates, which are an important determinant of numbers in the labour force, must be taken into account as well. Although the working age population comprises those 'in the labour force' and 'not in the labour force', the unemployment rate is the ratio of those unemployed in the labour force to the total labour force. Hence lower labour force participation rates of Maori and Pacific Islands people are not reflected in their unemployment rates. Easton (1994a) reporting research on census data of 15 - 24 year olds, points to the interesting anomaly that despite young Maori being less likely to be employed than non-Maori in the same age group, they are however, less likely to be unemployed than young non-Maori. This surprising fact arises because the conventional unemployment rate measure makes no allowance for the higher proportion of Maori youth who are not in the labour force. As seen from Appendix 2 figure 2, at the end of 1985 the labour force participation of Maori males was even higher than the all males category. Sharp falls in the labour force participation rates of both Maori males and females

is a noticeable feature of the December 86 to the September 89 quarters, suggesting a link between conditions in the job market and labour force participation rates¹¹.

As the economic climate improves and job opportunities open up, it is usual for participation rates to improve as well. It is, therefore, particularly interesting, that in New Zealand, ethnic factors appear to yield different results. For the last four June quarters from 1993-1996, the labour force participation rates of European/Pakeha increased from 63.7% to 64.5%, 65.3% and 67% respectively. The New Zealand Maori rates at 58.4%, 59.0%, 61.2% and 61.3% were lower than the European/Pakeha rates, though also reflecting an expected upward movement. The lower and falling labour force participation rates of the Pacific Island Group over the same quarters, from 60.8% to 60.5%, 57.8% and 59.5%¹² therefore merits further investigation. Maori male participation rates are nevertheless still below the all males category and the gap between all females and Maori female participation rates shows little sign of closing (Appendix 2 figure 2). It could nevertheless be suggested that the greater youthfulness of the Maori and Pacific Island population groups may involve lower labour force participation due to greater participation in education and training.¹³

Analysis of the dynamics of unemployment also reveals further labour market disadvantage. Both Maori and Pacific Islands people are expected to spend around 22% longer on the unemployment register and are more likely to experience repeated spells of unemployment than other unemployed workers (Mare 1995:121).

¹¹ A study of the degree of responsiveness of the labour force to changes in unemployment for the period 1970-91, ranks New Zealand seventh out of 23 countries (Elmeskov and Pichelman 1994).

¹² HLFS statistics for the Pacific Island group can be volatile due to sampling errors arising from small sample size for this group.

¹³ Since the 1996 Census of Population extended the coverage of education and training topics, new statistics due out in 1997, may shed light on this aspect.

4.3 Theoretical Underpinnings of Employment Policy

4.3.1 A Simple Model

Following (Layard et al. 1994: 53-55), a model of unemployment can be stated. A 'hiring' or 'matching' function shows the flow (H) of unemployed people into employment (i.e. the number of unemployed people hired per period) is positively dependent on the number of vacancies (V) and the number of effective job seekers (cU):

$$H = h(V, cU) \quad (1)$$

Where U is the number of unemployed and c represents the effectiveness of the average unemployed worker's job search activity (say $c = 1$), then H/cU is the chance of securing a job.

Given an equilibrium number of jobs, the number of people hired will equal the number of people who become unemployed. If the fraction of employed people (N) who become unemployed is denoted by s then in equilibrium :

$$sN = H \quad (2)$$

From (1) and (2) the following relationship, which is the Beveridge or U/V curve, is obtained:

$$s = h(V/N, cU/N)$$

If search effectiveness (c) falls, the UV curve shifts outward and unemployment increases. An outward shift can also be caused by an 'increase in 'mismatch' between the pattern of unemployment and vacancies across sectors' (Layard et al. 1994: 55).

Figure 4.6 shows New Zealand's UV curve for the period 1985-95.

4.3.2 Justifying Employment Policy Within the Model

The questions that need to be asked in terms of the model presented above and in order to ascertain an outward shift of the UV curve, are:

1. Has the search effectiveness of unemployed job seekers altered?
2. Since effectiveness depends not only on the action of job seekers themselves but also on the willingness of employers to consider certain people, is there employer discrimination against these workers?
3. Is there increased 'mismatch' between the pattern of unemployment and the vacancies that arise within certain sectors?

1. Search Behaviour

Since search theory focuses on maximisation behaviour of individuals and attempts to explain why individuals rationally *choose* to be unemployed in order to engage in productive job search, it is a theory of voluntary unemployment. Individuals search time is a form of investment. Thus:

Unemployed persons continue to search until they receive an offer whose value exceeds the return to continued search or until they decide that the net return to search is negative and withdraw from the labour force (Summers with Clark 1990: 36).

Search theory explanations for unemployment exert a strong influence on recent explanations for unemployment and/or lowered labour force participation.¹⁴

An important strand of search theory is the relationship between income maintenance payments or social welfare cash benefits and search behaviour. Search behaviour is also intertwined with an individual's preference for income or leisure, as theoretically delineated in the income-leisure model. Although theoretically separated into two distinct theories, both theories give similar results. Thus when replacement rates (i.e. the ratio of the unemployment benefit to income

¹⁴ For an extensive review of search theory literature see Hicks 1984.

in work)¹⁵ falls with a reduction in the unemployment benefit, the income-leisure model predicts that since leisure is more expensive, there is greater incentive to become employed. Search theory also predicts a similar outcome when the unemployment benefit is lowered, except now the explanation is that there is a lower reservation wage¹⁶ and less time spent searching for a job at the acceptable wage. Also a lower benefit lowers the search subsidy and search time is therefore reduced, leading to lower unemployment.¹⁷ Generally, the finding that is supported by the research using either theoretical underpinning, is that less generous welfare programmes coupled with the stigma of benefit receipt, lessens the disincentive effect of welfare (Piven and Cloward 1987: 387-390).

The April 1991 reduction of benefit levels in New Zealand may be justified both in terms of the income-leisure model and search theory. Empirical evidence, however, does not validate the theory. An examination of New Zealand's unemployment experience chiefly during the period 1960 - 1981, concluded that:

attempts to explain the phenomenon as a voluntary, rational response by workers is quite unconvincing. Rather, New Zealand's unemployment appears to result from a chronic deficiency of aggregate demand (Hicks 1984: 616).

¹⁵ The replacement rate or ratio more comprehensively defined as 'the ratio of out-of-work income to net earnings, is determined by the level of benefits out of work, the duration of benefits, potential earnings in work and taxes and social security contributions paid on earnings. High replacement rates can lead to an 'unemployment trap', where there is little immediate financial incentive to take up paid employment' (OECD 1995: 25).

¹⁶ The reservation wage is the lowest wage at which a job will be accepted. When the reservation wage is equal to the market wage, an individual is indifferent about being unemployed or employed. Feldstein (1978) argues that high reservation wages cause a large divergence between the private and social costs of unemployment.

¹⁷ Search theory also predicts that an increased unemployment benefit can be socially beneficial. The improvement in productive search made possible by the higher benefit means that workers can find jobs that better match their abilities and interests, leading to improved productivity and a greater aggregate output and welfare of society. Thus although initially the duration of unemployment may lengthen, the resultant better match of jobs leads to a fall in the number of spells of unemployment and therefore to lower unemployment.

Examining the link between unemployment benefits and unemployment, Hicks and Chin showed that increases in the replacement ratio was associated with a reduction in unemployment rates. Their findings were:

at odds with the hypothesis that increasing unemployment benefits induce a significant increase in the consumption of leisure by workers who quit employment at the expense of taxpayers. What inducement there is, appears to result from an extension of unemployment duration by those who are already unemployed. Our interpretation of the evidence suggests that this extra time is utilized as search, not leisure, and therefore is beneficial as it produces a reduction in the overall unemployment rate (1984a: 32).

Another study has also argued that the link between the disincentive to work of the benefit system and actual work behaviour is empirically either insignificant or not substantial in terms of actual labour supply (Brosnan et al. 1989).

Overseas evidence too appears to now confirm that reality may well differ from theory. For instance, using estimates from US gross-flow job data, a special survey of job changers and job-search surveys, Summers and Clark (1990) have concluded that the search model is an implausible explanation of why people become or remain unemployed. They cast doubt on the idea that the long term unemployed have high reservation wages and argue that each of the other explanations put forward (e.g. minimum wages as an explanation for extensive unemployment), appear not to have any solid empirical support. They conclude that:

no individual's experience can be neatly pigeonholed into one of these categories. Nor is there any reason to believe that a single monolithic explanation should characterize extensive unemployment. More research is necessary to quantify these potential explanations and to develop new theories illuminating extensive unemployment' (Summers with Clark 1990:43).

Furthermore, as Atkinson and Micklewright (1991) stress, economic models on the incentive/disincentive effects of benefits are usually an oversimplification. Institutional factors such as conditions of benefit

entitlement and benefit administration, play an important role in minimising the potential of disincentive effects and the impact of these should be included in any policy evaluation.¹⁸

Empirical evidence has also shown high work effort among benefit recipients to be the case. Analysis of US panel data for the years 1984-1986 showed that the majority of single mothers work while they are in receipt of welfare and 66+% of welfare exits are through employment (Harris 1993). An interesting finding of the study was that human capital investment is a vital determinant of these exits (chapter 5 discusses human capital as the key to employment).

On the basis of the above, it may be suggested that the early 1990s benefit cuts and tightening of eligibility requirements, which form a key element of recent employment policy, were not based on empirically proven theory but rather on an untested notion that the prevailing benefit system constituted a disincentive for beneficiaries to take up market employment. To the extent that this policy has caused hardship and a decline in welfare to some groups who are unable to engage in market employment through no fault of their own, or are coerced into cutting short their job search time and taking up less 'satisfactory' (jobs in the secondary sector of the labour market which are low-paid and low-status, or jobs otherwise unmatched with the job seekers potential), it may be argued that the state has been well-being 'disabling' not 'enabling'.

2. Employer Discrimination

A small but growing body of recent research which attempts to theorise the presence and implications of long-term unemployment, shows that when the unemployed have to incur a cost to maintain their skills, if there is no way to observe whether they have done so, The economy then has multiple equilibria supported by self-fulfilling beliefs of employers, with one of these equilibria more likely to occur. This more

¹⁸ The discussion in section 2.3.4 also pointed out that institutional factors, features of benefits and issues of detail can have different outcomes at the macroeconomic level.

likely equilibrium is one where there is employer discrimination against long term unemployed, who in response let their skills atrophy. It is a possible case of market failure. In such a case, therefore, government action in the form of positive discrimination, direct subsidies and labour market policies of retraining of the long-term unemployed is beneficial and are suggested to correct the market failure. Positive discrimination by government in moderation becomes quite effective. Racial minorities face the same type of discrimination as the long-term unemployed and similar government actions are justified (Acemoglu 1995).

These results by Acemoglu are important because earlier literature had implied that such governmental action could reduce the incentives of the group that were already being discriminated against and are therefore less desirable. Coate and Loury (1993) for example, based on the intuition of the statistical discrimination model of the Arrow(1973) and Phelps (1972) type, had shown that affirmative action targeted at minorities, depending on how employers' perceive worker productivity, could be counter-productive. The Acemoglu analysis, however, is of greater validity than this literature as it endogenises wages and relaxes the assumption that workers are credit constrained and unable to pay for training. It gives theoretical weight to the targeting of government labour market programmes to the long-term unemployed and labour market disadvantaged racial minorities, as is the practice in New Zealand.

Blanchard and Diamond (1994) use a sorting model to show that when employers have multiple applications for a job they select the worker who has the shortest duration of unemployment. This selection behaviour at the firm level has important implications for the duration and incidence of unemployment at an aggregate level. Such behaviour provides a case for active labour market policies such as employer wage subsidies which will influence the selection of the longer-term unemployed and may thus be placed in the domain of employment policy which enables individuals to secure well-being (see section 4.3.4 for further detail on active labour market policies).

Pissarides (1992) argues that the loss of skills during long-term unemployment has important implications for the rate of job creation and explains the persistence of unemployment over the business cycle. This analysis links up with other literature on hysteresis¹⁹ which is based on the loss of human capital during longer spells of unemployment (e.g. Hargraves-Heap 1980, Hughes and Hutchinson, 1988). Temporary work schemes such as Taskforce Green (see Appendix 1) are thus of merit because they preserve work habits and additionally could enhance skills.

It is also possible that private employers may regard some groups as workers with a negative marginal product. This could explain why, for instance in Germany, even with government wage subsidies for jobs for long-term unemployed, of up to 80% for the first 6 months of employment and a lower subsidy continuing thereafter, employers have been unwilling to offer jobs to this group (Disney et al. 1991). In such instances subsidised jobs at the community level become more appropriate. Job creation at the community level can also serve another important purpose: it can provide jobs for those who are most at risk of long-term unemployment. Employment creation at the community level is the focus of chapter 7 of this thesis.

3. Mismatch

The analysis on mismatch in this section is particularly relevant to the ethnic unemployment problem. If mismatch is shown to exist, then it could help explain some of the large differentials in ethnic rates of unemployment (see section 4.2.4), and suggest solutions.

Investigation of the relationship between unemployment and vacancies (UV) in New Zealand, does not detect any significant outward shift of

¹⁹ The hysteresis phenomenon suggests that once there is a disturbance from market equilibrium, there is no automatic tendency to return to the earlier equilibrium, once conditions which caused the initial disturbance are reversed. Thus for example, it is also asserted, according to the hysteresis mechanism or path dependence, that if larger disinflations to control inflation occur, there may be a return to a much higher equilibrium level of unemployment (Ball 1996).

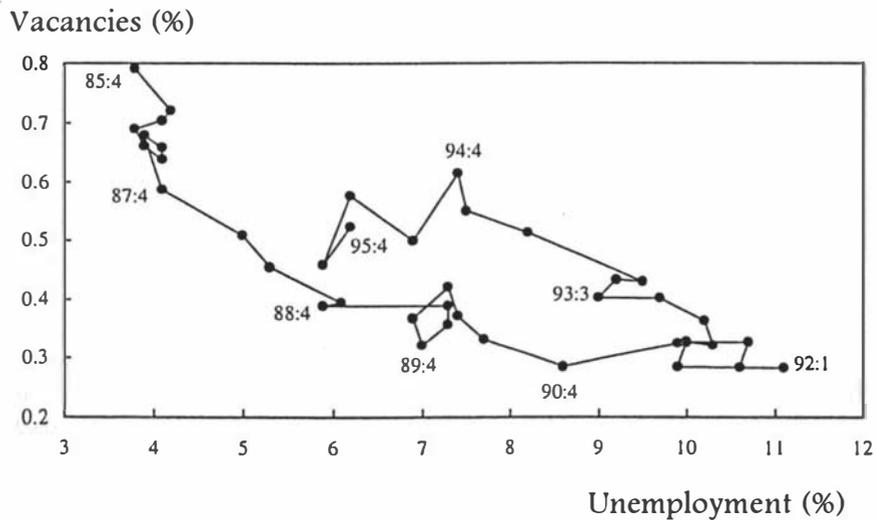
the UV curve on account of structural change. Hicks and Chin in their examination for the period 1960-81, found no real shift of the UV curve and conclude that:

the recent increase in New Zealand's unemployment has been due to factors other than an increase in the degree of structural disequilibrium in the labour market (1984b: 29).

For the later period 1985-1995 too (see figure 4.6), Chapple et al. (1996) argue that there has been no significant shift of the UV curve to the right.

FIGURE 4.6

The UV Relationship in New Zealand 1985-1995



Sources: Vacancy Rate: *Job Vacancy Survey*, updated and Chapple 1995; Unemployment Rate: Statistics New Zealand. Cited in Chapple et al. 1996: 154, Figure 9

On the basis of more disaggregated vacancies data and information on registered unemployment, however, indices for occupational and regional mismatch for short periods during the 1980s (according to data availability), may be used as indicators of structural unemployment. These indices showed that:

mismatch comprises a considerable *share* of unemployment, that is, mismatch *is* a significant problem (Chapple et al. 1996: 155).

Although regional mismatch accounted for a high of 14.5% of registered unemployed in 1986, this percentage declined in the late 1980s, to reach 4% by March 1990. Occupational mismatch, however, climbed steeply in the latter part of the 1980s, to 9% of registered unemployed in the March 1990 quarter (Chapple 1995).

Given that occupational mismatch exists, it can be suggested as an important explanation for ethnic unemployment. Examination of the fortunes of the manufacturing sector, where traditionally employment of Maori and Pacific Island people has been concentrated, gives an indication of an important contributory factor for the steep decline in employment levels of these people. In the second half of the 1980s, 25% of the workforce of the manufacturing sector were laid off and there was a halt in the strong export growth that had characterised the sector over the previous twenty years (Crawford 1996). Although manufactured export volumes increased strongly again from 1991, it has been non-traditional manufactured goods, like high technology equipment that have been a major component of this growth. The value of elaborately transformed manufactured exports has approximately doubled, to \$5000 million, from mid 1991 to 1995 (Crawford 1996: 176). Because of the essentially skilled labour requirements of these exports, ethnic minority groups due to a paucity of such skills, have benefited little from such improvements.

Although it is evident from figure 4.2 that the share of the manufacturing sector has steadily declined over the census years, manufacturing continues to be the major employer of Maori and Pacific Island group men. In 1991, 27% and 46% of employed Maori and Pacific Island men respectively were in the manufacturing sector, compared to 21% of all men. Overall, there is under-representation in the agricultural sector and a heavy concentration of Pacific Island employment in the manufacturing sector. 1991 Census figures show 36% of those employed in this ethnic group were in the manufacturing sector. By contrast only 16.5% of the total employed New Zealand population worked in this sector. Furthermore, despite a decline

in the occupational index of dissimilarity²⁰, the ethnic segregation by occupation nevertheless remains marked. Maori and Pacific Island Polynesian workers are more likely to work as labourers, drivers, machinery operators and assemblers. They are also more likely, especially women to be employed as personal and protective service workers. Interestingly, Pacific Island workers have a higher degree of occupational segregation than the Maori workforce (Department of Statistics 1993: 124-126).

The economic restructuring commencing in 1984 has had important implications for manufacturing employment where the fall in manufacturing jobs over the decade of the 1980s accounts for nearly 75% of the net increase in unemployment. As Willis comments:

... gone are the days when in New Zealand a young person could leave school at 15 and get a reasonable job in the dairy factory, freezing works or the Ford Motor Company. These jobs still exist, but they are dramatically fewer in number and there has been an upgrading in the 'skill level' required (1995: 344).

The decline in such unskilled job opportunities and the generally lower demand for unskilled labour, parallels the trend in other developed economies. Relatively high demand for trained and skilled labour and the lower demand for unskilled (and its impact on relative wages) in the 1980s, has been pointed out by several researchers (see for example Katz and Murphy 1992; Schmitt 1994).

Substantial labour shedding,²¹ due to major restructuring across most sectors, and chiefly primary and manufacturing sectors and government owned service sector activities, meant Maori employment particularly suffered since it was heavily concentrated in these areas (Callister 1989:

²⁰ This measures the extent of occupational differentiation by indicating the percentage of workers in an ethnic group who would have to change occupations in order to match the occupational distribution of other employed workers. Thus for example, in 1981 the index of dissimilarity for Pacific Island Polynesian females was 47.6, indicating that 47.6% of women in this group would have to change their occupations if their occupational distribution was to match that of other women. This index had fallen to 32.7 by 1991 but this is still a heavy occupational concentration.

²¹ In the 3 years to December 1988, despite a net increase of 2900 job equivalents in the services sector, total employment fell by 63 000 people (Callister 1988: 4).

4). With forecasted export growth slowing down in the traditional primary sector areas of meat, wool and dairy but rapidly growing in non-traditional land-based areas such as horticulture, forestry, mining, and even tourism, Callister highlights that:

... the land base remains a key element in the generation of income, but in many areas new investment and skills are required to transform its traditional uses. This is a major challenge for Maori people as much of remaining Maori-owned land is used for traditional agriculture, with the added problem that 80% of Maori live in urban settings, often far away from their land holdings (1989: 3).

Examining forecasted changes in occupational mix from 1993-2000, Andrews and Rose (1995) note the significant differences in occupational contributions to employment growth. Thus the managerial and professional occupational group employment accounts for 37% of total employment growth while the contribution of manual production and elementary occupations is 13%. Projections for Maori employment growth in these two categories are, however, substantially lower for the higher skilled occupational category of managerial and professional employment, being just under 20%, and more than double at 27%, for the lower skilled manual and elementary occupational category. While it is more difficult for disadvantaged groups to change occupational patterns due to social factors like attitudes and expectations and economic circumstances of low income, nevertheless the youthful nature of the population and the entry of younger Maori into the labour force, enhances the potential for reshaping the labour force in less time than other sections of the population. This of course is subject to the availability of both incentives and resources, especially educational resources (Andrews and Rose 1995: 23, 24). This is true for the younger Pacific Island population as well.

It appears evident that occupational and skill mismatch would explain a fair degree of unemployment among ethnic minorities. Policies which seek to enhance human capital and provide labour market training (covered in chapter 5), so that these people are able to secure employment in higher skill, job generating sectors, are therefore justified.

4.3.3 Decentralisation of Bargaining

Changes made to the institutional structure²² of the labour market, constitute a key element of employment policy in the post 1984 era. Promoting a more efficient labour market through provision of the legislative framework for decentralisation of wage bargaining through the 1991 Employment Contracts Act (ECA)²³, forms a cornerstone of the well-being enabling state.

Underpinning the Employment Contracts Act therefore is the notion that decentralisation is preferable to centralised forms of bargaining. Yet, there is no conclusive evidence that the level of bargaining has an adverse impact on the economy. Although a higher degree of centralisation of bargaining in the labour market, increases the probability of non-competitive wage determination, there could be benefits that outweigh such costs (Calmfors and Driffill 1988a and 1988b). Thus for instance, when industry unions act independently, each will push for high wages which would cause an increase in the general level of price and reduce the real consumption wage. Co-ordinated bargaining among unions, however, could internalise such an externality and wage increases will be more moderate. Additionally, giving workers an overall greater 'say' in wage determination could reduce transactions costs, promote amicable relations with management that are conducive to productivity and contribute to a greater social consensus and cohesion.

Centralisation is not a prerequisite for co-operation in bargaining (Soskice 1991). Covert co-ordination between dominant employers and unions can exist even if wage setting is decentralised. In countries like Germany and Switzerland there is a long history of co-ordinated bargaining even though there was separate industry level bargaining.

²² Maloney and Savage 1996: 174-180, provides a good summary of pre 1984 wage setting system.

²³ The Employment Contracts Act also abolished the national awards system and compulsory unionism which had underpinned the previous centralised wage setting system.

Corporatist²⁴ arrangements may be considered as centralisation of bargaining. The benefits of centralisation have also been empirically supported by the relatively better economic performance, especially in terms of modest increases in unemployment, of Sweden, Norway, Finland and Austria from 1973 to the late 1980s (see for example Windmuller 1987). On the other hand, the case of the decentralised labour market is highlighted as being better able than more centralised markets, to adjust to adverse shocks through wage flexibility. It is also asserted that since private sector employers are more responsive to lower labour costs, then centralisation should be associated with private sector employment growth. Contrary to this expectation, private sector job expansion was slow in Sweden, Norway, Finland and Austria in the 1973-89 period and it was chiefly the sharp increase in public sector employment that was responsible for the superior employment outcome (OECD 1994c: 20).

In New Zealand, at the policy level, the lead-up discourse to the Employment Contracts Act, may be summarised as the 'flexibility debate'. Bringing prominence to the debate was the Treasury post election briefing to the incoming government, which decried the inflexibility of the New Zealand labour market (The Treasury 1984; see also section 3.3.1). This was followed by comprehensive coverage by the Economic Monitoring Group of the Planning Council which pointed out that the degree of inflexibility in New Zealand was by and large similar to that of other OECD countries (NZPC 1986). Harbridge (1990) was typical of those who held a view contrary to that of the Treasury. (See chapter 2.3.2 for further comment on the arguments for, and outcomes of labour market flexibility).

With the Employment Contracts Act, New Zealand went firmly down the flexibility path in order to foster employment growth. This was not the only policy option. As the OECD *Jobs Study* concedes:

²⁴ This involves cooperation between the government and social partners to achieve a collective agreement.

enhanced flexibility is but one mechanism to encourage employment growth. The adverse effect on employment of excessively high average wages in the private sector can, in principle, be offset in the longer run by measures to increase the efficiency of the workforce through training and other active labour market policy measures (OECD 1994c: 52).

Nevertheless for New Zealand the choice has now been made and it is appropriate to gauge the extent to which the Employment Contracts Act has in fact been well-being enabling.

The Government's justification of the policy changes embodied in the Employment Contracts Act was that the Act was essential to increasing productivity, achieving improved standards of living and freedom of association to all (Birch 1991). Differing opinions prevail on the Act's contribution to these three goals. The Employers' Federation and the New Zealand Business Roundtable are firmly of the opinion that the Employment Contracts Act is:

one of the most critical underpinnings of our productive and efficient modern economy (New Zealand Employers' Federation 1996: 8).

Citing independent research and surveys, these two organisations seek to convey that there is both broad satisfaction with the new labour relations regime and that employment, productivity and growth has benefited as a result of the Act (Holdsworth 1996, Kerr 1996, New Zealand Employers' Federation 1996). Maloney (1994) has shown that although there was no direct effect, the Act had an indirect effect on employment arising from the decline in union density. On the other hand Wilson studying the effects of the Act on women workers using a sample of women from various female dominated occupations, concluded that the purported freedom of association for all, is likely to exist only for a minority of women since equity in bargaining does not exist for all parties (1993: 137). Yet as Wilson (1994) points out, there have been two discernible patterns of employer behaviour. Some employers have used the Employment Contracts Act (ECA) as a means of

reducing wages, conditions and union influence and others have worked in partnership with employees and unions:

One of the truisms of any analysis of what the ECA has brought about is that its effects are contradictory. For every trend there appears to be a counter trend, meaning that one can be left with the sense of being able to say nothing of real substance about what is happening in the New Zealand workplace (1994: 281).

It is nevertheless too early to assess the overall impact of the Employment Contracts Act especially on employment and productivity, since the Act was enacted near the bottom of a business cycle, when the economy was in a recession which began in 1990 (see figure 4.4). Only after the economy has gone through a full cycle will it be possible to gauge the true impact of the Act. (For further comment on the impact of the Employment Contracts Act see also section 3.3.1).

4.3.4 Active Labour Market Policies

Active labour market policies usually include a broad set of measures designed to improve the functioning of the labour market and are aimed primarily at the unemployed. Most OECD governments have accepted active labour market policies as an important part of their strategy to reduce unemployment. The OECD highlights the case for active labour market policies:

A progressive shift of resources is needed from passive income support to active measures. Active labour market policies improve access to the labour market and jobs; develop job-related skills; and promote more efficient labour markets. Active policies can strengthen the links between aggregate demand, job creation and the supply of qualified labour (1994b: 33).

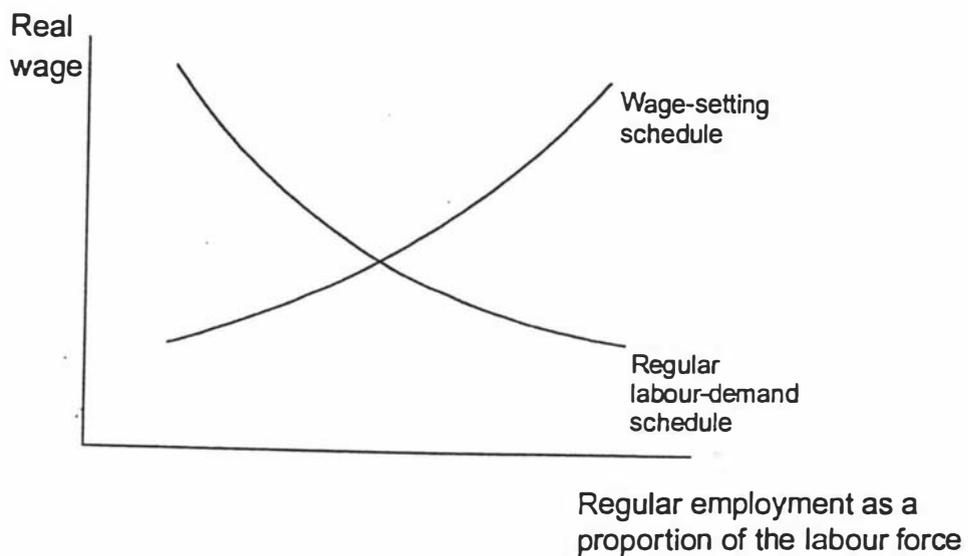
Active labour market policies may be grouped under 3 broad categories:

- job broking and placement services
- labour market training
- direct job creation (OECD 1993d).

Direct job creation includes public sector job creation schemes as well as job creation through subsidies to private sector employers. Focusing on the employment effects of training and job creation programmes, Calmfors and Skedinger (1995) provide a good summary of the theoretical rationale for such policies. They use a labour market framework which distinguishes between the wage setting and a labour-demand relationship on the basis of a modified Layard, Nickell Jackman (1991) model, as shown in figure 4.7 below. Effects which tend to shift the wage-setting schedule and other effects which work through labour demand are identified.

FIGURE 4.7

Calmfors-Skedinger Modified Layard-Nickell Model



Increased competition that newly laid off workers will face for available jobs will lower their re-employment possibility and mean that they are more likely to accept wage restraint in order to retain their jobs. This tends to shift the wage-setting schedule downward. By contrast, there is reduced welfare loss for the unemployed because they know that they have the option of moving into a labour market programme and this shifts the wage-setting schedule upward. There are also positive effects on the matching process if active labour market policies induce more active search behaviour or give employers confidence to employ the job seekers. Better job matching results and thus there is less incentive for

employers to attract labour by offering higher wages and the wage-setting schedule tends to shift downward. Improved matching effectiveness can also effect labour demand by filling vacancies quickly and thus opening up more vacancies, effectively increasing labour demand. There is however, ambiguity as to whether training and job creation programmes result in increased net matching effectiveness. For instance, when participants are 'locked in' for the duration of a programme, they are unable to fill a vacancy immediately and are unlikely to be engaged in job search. Other influences on labour demand are productivity effects which may increase labour demand, while deadweight and substitution effects reduce regular labour demand. If the marginal productivity of labour increases as a result of active labour market policies, labour demand shifts to the right. This effect is nevertheless not guaranteed and depends on several other factors such as if technological development is labour-augmenting, with output depending on efficiency units of labour. Deadweight loss arises when the workers targeted by the job creation programme would have been employed even without it. The substitution effect involves workers from the programme replacing other workers since relative wage costs are altered.

Using data from 24 Swedish regions, Calmfors and Skedinger found that there was a tendency for job creation programmes to crowd out regular employment. Training programmes had a more favourable effect though the results obtained were very unstable. They conclude that at the macro level, the evidence for large favourable employment effects of active labour market policies is weak. They nevertheless point out that:

this need not be an argument against such policies, but it is certainly an argument against putting too much faith in them as the *deus ex machina* that will solve the European unemployment problem (1995: 23).

They stress, however, that design features of the programmes could influence the effectiveness of programmes. These include the compensation level for participants in programmes, targeting, co-ordination with the unemployment benefit, and the type of programme.

Thus for example, training programmes could be argued to be more effective than job creation because they do not involve possible deadweight and substitution effects which are likely with job creation programmes.

There is a long history of direct state involvement in job creation as a mechanism for dealing with unemployment in New Zealand though this approach has largely been discarded with labour market training programmes becoming the preferred option. Mulengu (1994) traces this shift in policy emphasis which commenced with the fourth Labour Government, showing that it was a significant departure not only in the Labour Party's own traditional policy toward unemployment but also a break with a tradition going back to 1840. Overall, however, active labour market policies lost favour in the late 1980s and early 1990s, in line with the general movement to reduce levels of government intervention in the economy, but regained favour with closer attention being paid to the long-term unemployment problem (Scollay and St John 1996: 511). Thus the proportion of total expenditure on labour market programmes devoted to active labour market policies has risen from 30% in the 1990s to 35% in 1994/95 (OECD 1996b: 72). As indicated in table 4.2, labour market training programmes (discussed in section 5.3.3 of the following chapter), comprise the major element of active labour market policies. Table 4.2 also shows, however, that passive measures, namely unemployment benefits, remain the dominant form of expenditure on labour market programmes. They account for 65% of total public expenditure on labour market programmes.

TABLE 4.2
Public Expenditure on Labour Market Programmes
1994/95 June year

	NZ\$	% of GDP
1. Public Employment Services & Administration	100.4	0.12
2. Labour Market Training	290.5	0.34
3. Youth Measures	62.8	0.07
4. Subsidised Employment	132.1	0.15
5. Measures For Disabled	8.8	0.01
6. Total Active Measures (Sum 1 to 5)	594.6	0.69
7. Unemployment Compensation	1115.1	1.29
8. Total (6 + 7)	1709.7	1.97

Source: New Zealand Treasury

Today job creation measures largely comprises employer wage subsidies. *Job Plus* (see Appendix 1), with an expenditure of \$97.5 million in 1995/96) is the chief scheme²⁵. This is a targeted scheme for job creation for the long-term unemployed or disadvantaged workers. Targeting at those whose probability of employment is low and who are more likely to discriminated against by employers (see section 4.3.2), could hopefully, prevent deadweight and substitution effects. While there are no evaluations of the New Zealand schemes to assess their true employment creation effect i.e. net of deadweight, substitution and displacement²⁶ effects, examining Australian wage subsidy schemes, various studies have found that relatively low additional job creation has eventuated. Thus for instance, Stretton and Chapman (1990) claim that only 15-20% of jobs are additional and a Department of Employment, Education and Training evaluation (DEET 1989) of the subsidy scheme *Jobstart*, had similar results of around 15%.

²⁵ Other items included under the subsidised employment category of table 4.2 include the Enterprise Allowance, MANA, Taskforce Green and Community Taskforce (see Appendix 1 for details).

²⁶ Displacement involves the opportunity costs of displaced output arising from the employment of subsidised workers. Thus if for example, a competing firm has to reduce output and employment due to loss of market share to the firm employing subsidised workers, this is a displacement effect.

Currently in OECD countries, direct job creation programmes (excluding job creation through wage subsidies), are assigned a very minor role in tackling unemployment and are reserved to produce work 'outside the labour market' only for the most disadvantaged (OECD 1991). Recent research appears to support the superiority of wage subsidies over other direct job creation programmes (Bjorklund 1991, Rao and Jones 1986, Riddell 1991). Generally, studies show that subsidies result in a more favourable employment outcome, with many employers retaining the participants after the subsidy period is over (Carson 1995). Nevertheless such studies mostly consider gross employment outcomes and when net or only additional employment is considered, the advantage of wage subsidies diminishes. Cost-wise too while it is claimed that wage subsidies are superior with direct job creation projects being more expensive, the latter have a lower incidence of substitution. Thus, Stretton and Chapman (1990) point out that 80% of jobs created by the Community Employment Project are additional jobs. They conclude that while wage subsidy schemes cost only 10-20% of the Community Employment Project schemes, when the net employment effect is accounted for, the cost to the Commonwealth of an additional job appears equivalent under both schemes (Stretton and Chapman 1990: 50). Carson and Doube (1994) provide evidence that community based job creation which target specific labour market disadvantaged groups with tailored projects to suit their needs and abilities are beneficial in generating additional employment. There are also instances of successful Community Development Employment Projects (see for example Smith 1995b), which illustrate that direct employment projects may be a viable solution to the unemployment problem of ethnic minorities who benefit little from the employment opportunities that emerge as a normal consequence of growth in the economy. There may be good reason to suggest, therefore, that:

we should not relegate direct job creation to subsidiary status in the arsenal of labour market weapons used to combat unemployment (Carson 1995: 43).

Active labour market policies classified under the category of job broking and placement services, are those which typically enable more effective matching of job vacancies with unemployed job seekers and provide job search help and place job seekers in labour market programmes. These services can be undertaken by both public and private sector agencies. In New Zealand, the public sector - the New Zealand Employment Service, has traditionally had what may be considered largely a monopoly on these services. As indicated in table 4.2, a sizeable portion of funding, of around a sixth of spending on active labour market policies, is devoted to public employment services, chiefly comprising the New Zealand Employment Service but also includes the Community Employment Group (CEG), Student Job Search, Education and Training Support Agency which administers the major labour market training programmes and the Careers Service.

The 1996 OECD Survey of New Zealand draws attention to an international comparison which shows that in New Zealand replacement rates are relatively low for recipients of the unemployment benefit who are without children in the first year of benefit receipt, yet the indefinite duration of the benefit in New Zealand, raises the replacement rate for subsequent years and especially after the fourth and fifth years. The Survey suggests, therefore, that the open-ended benefit duration presents a case for review but this does not necessarily mean that benefits should be discontinued after a given period, but rather those who have been receiving a benefit over a long term could be required to participate in intensive assessments and be supervised in their job search activities (OECD 1996b: 66,67). This would then justify case management by job placement and broking agencies since such a tailored approach to meet individual client needs would help their successful entry into the labour market. International evidence also supports this approach. For example, a recent Swedish trial found that intensive case management improved exit probabilities by around 10 percentage points (Borkslund 1993).

Australia provides an example of the use of case management on a large scale national basis with case management being a key component of the

previous Keating Government's *Working Nation* strategy to assist the long-term unemployed into employment. It is, however, asserted that Working Nation's promised reduction in long-term unemployment did not eventuate (Vanstone 1996) and the public case management service of Employment Assistance Australia will be taken over by 'employment placement enterprises' (EPEs) and privatised. EPEs will also tender for labour exchange services. These changes are designed to create a genuinely contestable market in employment services as well as give case managers greater flexibility to assist their clients (Eardley 1996). 'Intensive employment assistance', the new terminology that replaces 'case management', will be available to those at risk of becoming or unemployed for 12 months or more. This heightened contestability in neighbouring Australia, could strengthen scattered calls (e.g. Sloan 1994: 42), for such a move in New Zealand too.

Currently in New Zealand, the New Zealand Employment Service administers individualised assistance, available through the *Youth Action* and *Job Action* programmes (for details see Appendix 1). *Job Action* which commenced in 1994 was targeted to those reaching 2 years of unemployment but has been extended to all registered unemployed for 2 years or more since January 1996 (available also for some job seekers after being unemployed for an year). It has been shown to have had a modest beneficial effect for participants (Department of Labour 1995). The coverage of *Youth Action* programme too was extended, phased in from January 1996, to all eligible 16-20 year olds. Individualised assistance is also available through the COMPASS scheme which seeks to map an education and training strategy for Domestic Purposes Beneficiaries so they can plan to enter the labour market especially when their caring responsibilities change (see Appendix 1).

4.4 Other Employment Policy Considerations

4.4.1 Taxation and the Tax-Benefit Interface

As mentioned in section 1.2.3, taxation directly affects both the ability of families to provide for their own well-being through market sourced

welfare with disposable income of the family affected by the level of taxation. Taxation is also integrally linked to the labour supply decision of the individual.

Major reform of the tax system came in 1986, chiefly with the introduction of a single rate comprehensive Goods and Services Tax (GST) and a two tier tax scale which cut the top personal income marginal tax rate from 66% to 48%, and later in 1988 this moved to 33% for taxable income above \$30,875 and a rate of 24% below \$30,875.²⁷

The three guiding principles of the tax reform of the 1980s were the generation of a system with a broader based income tax with flatter rates, a greater reliance on indirect taxes and the reduction of tax-benefit created disincentives to work, especially the poverty trap (Toder and Himes 1992).²⁸ The tax system lost its redistribution of income role and the nominal degree of progression was reduced substantially. This necessitated greater reliance on targeting of social services (Stephens 1996).

Just prior to implementation of the 1986 tax reform package, based on calculations which compared the disposable income of those on basic wages of selected occupational categories with that of beneficiaries, it was argued that ad hoc changes in the tax and welfare systems had caused increasing numbers of New Zealanders to be caught in an unemployment trap, an inertia trap or a baby trap, all of which constitute major disincentives to work (de Bruin and Goldsmith 1985).²⁹ While it must be stressed that the intention of this paper was

²⁷ GST was introduced at 10% on 1 October 1986 and increased to 12.5% from 1 July 1989. A low income rebate of 9% for the first \$9500 of income meant that the effective rate for most individuals was 15% for income earned up to \$9500, 28% between \$9500-\$30,875 and 33% above \$30,875.

²⁸ The poverty trap is a situation where when beneficiaries earn extra income the net income earned i.e. less tax and abatement or loss of benefit makes them no better off. The effective marginal tax rates are very high in such a case.

²⁹ The unemployment trap showed that income in unemployment had become a high proportion of, and can even exceed, net income from work, with no immediate financial incentive to take on a full-time job. The inertia trap was the name given to the situation where with high income tax levels and means-tested benefits, a rise in nominal incomes

in no way to suggest the benefit levels were too high or that women would actively consider financial gain before getting pregnant; the tables provided did show that it was a strong possibility that the wages-tax-benefit interface could impact on work effort and productivity. Nevertheless, despite an objective of the late 80s tax reforms being a reduction in disincentive effects, they were not successful in achieving this objective. Reduced marginal tax rates for high income earners improved their work incentive but disincentives to labour supply for low income earners continued with no decline in their effective marginal tax rates (Diewert and Lawrence 1994).

The 1996 Tax Reduction and Social Policy Programme may be seen as a strong attempt to mitigate the disincentive effect of the tax-benefit system. The stated aims of the package are to improve work incentives through widening the gap between benefit and paid work, enhancing the rewards from working part-time and increasing assistance to help the movement into paid work. Tax reductions are broadly targeted at low and middle income earners. With effect from 1 July 1996, the lower tax rate was reduced to 21.5% and the threshold at which the higher rate of 33% would commence, was increased to \$34,200.³⁰ Changing patterns of employment associated with a rapid rise in part-time work are also recognised with modification of the current abatement system. From 1 July 1996, part-time employment is encouraged through beneficiaries being allowed to earn \$80 a week before their main benefit begins to reduce (previously beneficiaries could earn up to \$50 a week or \$60 a week for those with children). Acknowledgement that for some beneficiary groups (those on the Domestic Purposes, Invalids' and Widows' benefits), part-time work is a more feasible option than full-time employment, has also seen institution of a dual abatement system. Thus these groups will have a greater incentive to work since for

leads to an increase in tax and a simultaneous withdrawal of benefits so that there is little monetary incentive to seek job advancement, or to raise income in anyway such as through overtime; there is no incentive to increase work effort and encouragement instead to maintain existing income levels. The baby trap was shown to be a possibility since there was a financial incentive to have a baby and become a domestic purposes beneficiary rather than remain employed on low wages or continue in unemployment.

³⁰ The Low Income Rebate was also adjusted so that the effective tax rates were 15% for the first \$9500, 24% between \$9500-\$34,00 and 33% thereafter.

earnings in the range \$80-\$180 the rate of abatement will be 30% instead of the earlier 70%.

4.4.2 Supplementing Income of Lower Paid Workers

The purpose of some employment policy measures is direct assistance to low wage earners to procure their well-being while simultaneously motivating welfare recipients to take up employment. The Guaranteed Minimum Family Income (see Appendix 1 for details), which was introduced together with the 1986 tax reform package, is one such measure. The Guaranteed Minimum Family Income was designed to target low income workers in full-time work with dependent children, to give them a *modicum* of social protection without distorting relative wage structures. Yet as Stephens maintains:

introduction of the family support tax credit³¹ and guaranteed minimum family income can be seen as either a method for reducing poverty among low paid workers or allowing employers to reduce pay rates for competitive advantage reasons in the knowledge that the government subsidy would maintain take home pay (1996: 465).

A corollary of the Guaranteed Minimum Family Income however, was that it contributed to very high effective marginal tax rates for low and middle income families and this in itself is a disincentive to work effect. It also brought in the principle of differentiating between families with children on the basis of whether or not their parents were in paid work or not. Thus, families where parents worked were rewarded while those on benefits were not. This same principle was to be followed a decade later when the Independent Family Tax Credit was introduced (see Appendix 1), as part of the 1996 Tax Reduction and Social Policy Programme (Birch 1996a).

The Independent Family Tax Credit's explicit discrimination between families with children on benefits and those in employment has been criticised on the grounds that:

³¹ See also section 3.3.2: 86 for comment on family support.

It cannot be argued seriously that families who do not qualify for the tax credit have lower childcare cost. Nor can the discrimination be justified on the ground that work effort must be rewarded; this would suggest that all workers should be eligible. It is hard to imagine how a work incentive should be calibrated by the number of one's children (St John 1996).

Defending the targeting of the Independent Family Tax Credit, the Finance Minister responded:

Low and middle income working people are the engine room of the economy. In the view of the Government, it is essential that they earn enough money, after tax and family assistance, to maintain the energy and commitment of their work contribution... It is equally important that beneficiaries have a significant financial incentive to graduate, wherever practicable, from the benefit back into the workforce (Birch 1996b).

4.5 Chapter Conclusion

This chapter has presented the changes in employment patterns, conditions and employment policy in New Zealand, within their historical context. It is shown that generally, in response to changing economic conditions and ideology, current employment policy has been designed to enhance labour market adjustment and encourage participation in the labour market such that households may provide for their own well-being.

In the post 1984 period, employment policy has been characterised by steps to enhance incentives for movement into paid employment and improve employment opportunities for job seekers through direction to the acquisition of appropriate skills and training and individualised assistance with job search rather than through the traditional welfare state strategy of direct job creation through work schemes. Active labour market policies are an important aspect of assisting the unemployed enter employment and the design, appropriate implementation and management of these policies are crucial to counteracting their negative effects and improving their employment outcomes. An integral aspect of employment policy has also been the

attempt at provision of an enabling infrastructure through change to the New Zealand's traditional wage setting process and industrial relations system, so that:

the labour market in New Zealand is currently probably on of the most deregulated in the OECD (OECD 1996b: 87).

The changed policy direction has also been characterised by an attempt to reconcile the needs for social protection with an efficient and smoothly functioning labour market and to harness the welfare system:

to encourage rather than constrain labour market adjustment (OECD 1990: 63).

In these respects, therefore, employment policy identifies New Zealand as having moved from a welfare state to a well-being enabling state. Some employment policy measures, chiefly the 1991 benefit cuts, however, may be construed as well-being 'disabling' rather than 'enabling'.

Ethnic dimensions of unemployment are also highlighted in this chapter, drawing the thesis closer to its micro level, local action analysis. Both employer discrimination and mismatch were discussed in terms of the simple UV model set out. It was suggested that both factors could contribute to the current high levels of ethnic unemployment. Specific active labour market policy responses are thus justified and necessary to mitigate the problem of unemployment among the ethnic minority groups, who have not benefited from recent job growth. Discussion of detailed policy measures for labour market disadvantaged ethnic minorities in terms of improving their human capital is, however, left for chapter 5 and community employment creation as an important solution to the ethnic unemployment problem is discussed in chapter 7 of this study.

Human Capital: The Key to Employment

*Ko te manu ka kai i te miro, nona te wao tapu nui a Tane-Mahuta
Ko te manu ka kai i te matauranga, nona te ao.*

The bird that feeds off the miro tree belongs to the great forest of Tane-Mahuta.

The bird that draws sustenance from knowledge will inherit the world.

5.1 Chapter Introduction

This is the last of the three chapters in Part II - 'National Change', of the thesis. As illustrated in figure 5.1 and highlighted by the darker shading in the figure, the chapter brings into focus the education and training aspects of employment policy and forms an integral part of the multi-level analysis of the study.

FIGURE 5.1
The Education and Training Policy Focus
of the Multi-level Analysis



Although illustratively separate, the intermixture of the different levels of analysis in the thesis becomes obvious in this chapter. For instance the chapter includes the problem of the general, global perspective together with the low-level, local perspective. Thus the need to build New Zealand's human capital in order to respond and adapt to international change and a new technological style, intersects the first tier of analysis. The difficulties faced by schools in disadvantaged communities, on the other hand, brings the thesis closer to its final grassroots analysis.

Reform of New Zealand's education system and a change in training strategies for the workforce and those who are unemployed, has characterised the changeover from a welfare state to a well-being enabling state. The chapter provides details of the reform, through from the base of early childhood education and care to tertiary education and industry level training, in order to elucidate the fundamental changes that distinguish the post-1984 well-being enabling state. To assist the provision of a clear and complete picture of the reform, the chronology of the changes and the various government commissioned and Ministry of Education reports that underwrite New Zealand's reforms are necessarily detailed.

This chapter also highlights the lower educational attainment of Maori and Pacific Island Groups and the means for closing this ethnic education gap and mitigating their lack of human capital in the short term.

5.2 The Importance of Human Capital

It is now increasingly recognised that,

human resources ...constitute the ultimate basis for the wealth of nations. Capital and natural resources are passive factors of production; human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations, and carry forward national development (Harbison 1973: 3).

Traditional neoclassical growth theory showed the ‘residual factor’ or total factor productivity growth, which is output growth unexplained by additional labour and capital inputs, to be of importance in affecting long-term sustainable economic growth (Solow 1957). Schultz (1961) was the first to show that improvements in the quality of labour through education was vital in explaining growth in the United States which was ‘unexplained’ by conventional factor inputs. He argued that the return to investment in human capital was at least equal to if not higher than the return on investment in non-human capital. With 60 per cent as the measure of residual growth between 1929 and 1956, Schultz claimed that 30 to 50 per cent of this residual represented the return to increased education. Bowman (1964) and Denison (1962) too confirmed the importance of the contribution of education to growth.¹ More recent growth accounting studies for a cross section of countries, suggest that improved labour quality resulting from education accounts for up to 25 per cent of the rate of growth of national income, with the average growth contribution of education being just under one-tenth (Pscharopoulos 1984). Education contributes to growth for instance, because the adoption of embodied technology (new inventions) and disembodied technology (more productive ways of combining given factors of production), is more efficient in more educated societies (Machlup 1970).

New endogenous growth theory or new growth theory, endogenises human capital formation and technological change which were exogenously determined factors in the neoclassical growth model. Human capital becomes a key contributor to sustained per-capita output growth. The new growth theory serves to emphasise the role of human capital in enhancing technological progress and productivity (Romer 1986, 1990).

¹ Bowman distinguishes ‘units of inputs of productive services derived from “embodied education”’ as “Eds”, with human capital as a stock and Eds as flows (1964: 450). Refining the calculations of Schultz and Denison, Bowman argues that Eds would have contributed around 18-19% to national income growth over the period 1929 - 1956/57, in the US (1964: 459).

An important theme in the literature of economic growth has been the attempt to explain why some countries achieve higher levels of productivity and others lag behind. Central to the analysis is the presence of an economic 'lead' country and 'follower' countries with a lower level of productivity. Defining leadership in terms of labour productivity i.e. GDP per man hour, Maddison shows that the US took over leadership from the UK in 1890 (1991: 31).² In the postwar quarter-century, 1948-1973, there was 'catch-up' to the US and a convergence of productivity among the group of advanced market economies (Baumol 1986, Baumol et al. 1989, Baumol et al. 1993). Examining elements influencing the potential of different countries to raise their productivity and catch-up, Abramovitz (1986, 1994), highlights the importance of 'social capabilities'. Rising levels of education involving education of the general population, the availability of a sufficient body of competent engineers who could discover, acquire and effectively use modern technology and enhanced experience of businessmen in large scale production and corporate organisation; are indicative of general changes in social capability that release the potential for catch-up (Abramovitz 1994: 39). Elements of human capital therefore, are also vital in the process of productivity catch-up.

Human capital theory predicts that individuals with more education will be more productive and receive higher income from employment (Becker 1964, Mincer 1974). Today, global forces have increased the value of skills that match with the growing number of knowledge and technology based jobs. By contrast, low-skilled jobs are both low paying and slow growing. Continuing rapid technological development and long term structural change reinforced by the post 1984 economic reform which opened the economy to heightened competitive pressures, highlight the need to strengthen New Zealand's human capital base. Moreover, improvements in human capital are crucial in the light of New Zealand's poor total factor productivity growth record. A degree of

² Large domestic investment levels, which was nearly double the UK level for the period 1890-1950, vast natural resources, the damage to capital assets suffered by the European countries during the two World Wars and Japan in the Second World War, were all factors which contributed to USA's productivity lead.

skills mismatch, as discussed in section 4.3.2, and low productivity growth (table 5.1), suggests that skill levels should be raised.

TABLE 5.1
Productivity Growth in the Business sector
Percentage Changes At Annual Rates

	Labour Productivity			Contribution of Capital Accumulation			Total Factor Productivity		
	1960-1973	1973-1979	1979-1990	1960-1973	1973-1979	1979-1990	1960-1973	1973-1979	1979-1990
NZ	1.6	-1.2	1.4	0.7	0.6	1.0	0.9	-1.8	0.4
US	2.2	0.0	0.5	0.7	0.4	0.4	1.6	-0.4	0.2
Canada	2.8	1.5	1.2	0.8	0.7	1.1	2.0	0.8	0.0
Japan	8.6	2.9	3.0	2.8	1.6	1.1	5.8	1.4	2.0
Australia	2.7	2.2	0.9	1.1	1.4	0.5	1.6	0.8	0.4
OECD Europe	5.0	2.7	2.1	1.8	1.3	0.8	3.2	1.4	1.3
OECD	4.1	1.4	1.5	1.3	0.9	0.6	2.8	0.5	0.8

Source: OECD *Economic Outlook* 51

Examination of table 5.1 shows that not only was New Zealand's productivity significantly lower than other OECD counterparts in the 1960-73 period, but also that New Zealand was alone among OECD countries with a decline in labour productivity in 1973-79 period. Table 5.1 further shows that although labour productivity subsequently increased in the 1980s, this may be attributed chiefly to the higher levels of capital accumulation in New Zealand relative to the OECD average. It would appear therefore, that lower human capital inputs have contributed to the poor total factor productivity growth performance in New Zealand. Enhancement of human capital is one facet in the broad range of policies required to achieve sustained employment growth, though currently,

perhaps the highest priority should be given to the need to improve the skills and competences of the workforce. This is an area where New Zealand lags behind other OECD countries, and which is to a large degree probably responsible for its poor historical record of productivity growth (OECD 1996b: 61).

5.2.1 The Education-Unemployment Link

The lack of human capital lies at the core of labour market disadvantage of the individual.³ In the 1980s in particular, it became clear that the rapid rise of youth unemployment, to twice the average rate of unemployment in most OECD countries, was a problem which needed to be tackled. Table 5.2 underscores that young people with fewer educational qualifications have consistently higher rates of unemployment.

TABLE 5.2
Unemployment Rates of Young People
by Educational Attainment, 1991

OECD Country	15 - 19 Years*			20 - 24 Years			
	Total	Less than upper secondary	Upper secondary & over	Total	Less than upper secondary	Upper secondary	Post-secondary
Australia	22.9	23.7	21.1	14.0	19.7	11.6	11.0
Austria	3.1	3.1	3.0	4.1	6.4	3.4	9.0
Belgium	19.9	22.7	10.5	13.9	21.7	11.9	5.5
Canada	17.3	20.9	13.9	16.2	30.9	16.4	10.8
Denmark	3.7	3.1	4.8	15.9	27.2	13.2	12.1
Finland	16.5	16.3	17.3	12.3	18.1	11.2	8.8
France	23.3	23.5	21.9	18.4	26.0	15.3	9.1
Germany	6.8	6.6	8.3	6.6	10.1	5.5	5.9
Ireland	35.3	40.8	19.7	19.9	31.3	14.5	12.8
Italy	35.9	32.8	62.5	28.9	22.7	34.8	47.4
Netherlands	15.2	15.7	12.3	8.2	10.2	7.0	8.5
N Z	23.3	25.1	20.0	17.8	24.2	13.2	12.5
Norway	17.7	18.0	17.0	10.8	17.7	10.6	7.6
Spain	35.5	33.8	38.6	29.9	29.9	27.8	37.6
Sweden	6.6	6.5	6.8	5.9	11.4	5.4	3.4
Switzerland	4.3	4.6	3.3	2.7	6.3	2.4	0.0
Turkey	17.0	13.4	48.4	19.0	14.4	31.8	37.7
U K	15.4	24.8	11.7	13.1	25.4	10.6	8.3
U S	19.7	22.1	14.7	12.2	21.8	13.2	5.9

* Data refers to persons aged 14-19 in Belgium and Italy and 16-19 in Norway, Spain, Sweden, the UK and US.

Source: OECD (1994) *Employment Outlook*, Table 1.14

³ As Mincer points out, that the relation between education of workers and their unemployment experience 'is negative is well known from fairly ubiquitous observation' (1993: 212).

A similar education-unemployment link is evident among those remaining unemployed for a longer duration.⁴ Thus for example, in New Zealand, in 1991, those without formal school qualifications made up 56% and those with School Certificate 15% of people unemployed for one year or more. By contrast, those with university qualifications made up only 0.1% of this group (OECD 1993b: 78). Active policies to enable the education and acquisition of skills for those with less qualifications, therefore seems an obvious strategy to enhance their capacity for welfare provision.

Since 1984, the direct state response to unemployment in New Zealand has been a discontinuation of public sector job creation schemes which were the accepted solution to unemployment in the past, and a move to a more active approach to training and skill acquisition. Employment policy has given greater recognition to the importance of building up an adaptable and skilled labour force in order to meet the needs of a competitive economy. In 1985, the Minister of Employment announced significant new directions for employment and training assistance programmes which represented:

a major shift away from the essentially welfare based approach of the present schemes...to a more positive, developmental approach centred on systematic training (Press Release, 15 June 1985).

5.2.2 Education Expenditure

The education sector is an important sector in economic, social and political terms. It is large and resource hungry. As table 5.3 indicates, education expenditure as a proportion of government net expenditure has increased strongly since the mid 1980s to approximately 16% by 1994-95. The increased share of 'Vote: Education' in government education is due to three factors: transfer of responsibility of some programmes and projects from other Departments to the Department of Education (for example the reshaping of early childhood education

⁴ There is also a lower risk of unemployment for those with higher levels of education. They also are more search efficient and engage in search more intensively (Mincer 1993)

meant not only increased funding but a transfer of responsibility of childcare services from the Department of Social Welfare to education); rising enrolment and participation levels and increased resourcing to some sectors, and reductions in other forms of government expenditure (Horan and Pole 1993).⁵ Table 5.3 also indicates the growth of expenditure on education as a proportion of GDP. This averaged around 5.8% for the last five years.

TABLE 5.3
Expenditure on Education in New Zealand¹

	Education financial net expenditure ^{2,3}	Proportion of GDP ⁴	Proportion of total Government financial net expenditure
	\$ million	%	%
1984-85	1,729	4.4	11.90
1985-86	2,010	4.4	11.80
1986-87	2,595	4.7	12.50
1987-88	3,118	5.0	12.50
1988-89 ⁵	3,569	5.4	13.50
1989-90 ⁵	4,068	5.7	13.90
1990-91	4,401	6.0	14.50
1991-92	4,467	6.0	15.30
1992-93	4,548 ⁵	5.9	15.30
1993-94	4,654 ⁶	5.5	15.85
1994-95	4,861 ⁷	5.5	15.78

1 Refers to the functional classification of Education used in the Budget, and comprises expenditure under Votes: Education, Education Review Office and National Library.

2 Figures for the period 1990-91 to 1993-94 are calculated on the new financial net expenditure basis used in Table 2A of the 1993-94 Budget. The figures for the period 1984-85 to 1989-90 are taken directly from Table 2 of the relevant Budget.

3 Financial net expenditure excludes cashflows arising from the Government's lending minus repayments. For education, the principal source of this cashflow is student loan advances.

4 For the period 1984-85 to 1988-89, percentages are calculated using March year GDP figures from the Department of Statistics. From 1989-90 to 1992-93, with change to a June financial year, June year estimates of GDP have been used. These are calculated by Treasury. GDP for 1993-94 is based on Treasury's Budget forecast.

5 Between 1989 and 1990, the accounting period changed from 31 March to 30 June.

6 Estimated Actuals

7 Voted

Source: Ministry of Education

⁵ In 1980, educational expenditure as a percentage of government expenditure stood at 13.3% and declined in the early 80s to reach a low of 11.3% in the 1984/85 financial year (Horan and Pole 1993: 7).

Education sectoral data show a steep increase in government expenditure on institution-based tertiary education and training which increased by almost 36% in real terms from March 1980 to March 1989 (Tertiary Review Group 1991: 6). Table 5.4 gives the distribution of education expenditure by different categories and shows that tertiary funding accounts for 34% of education expenditure in 1995/96. The sharp increase in tertiary participation rates from the mid 1980s, saw average annual rates of increase in the number of university enrolments of 6.9% and in the number of domestic full-time students of 9%, from 1986-1991 (Boston 1992: 187). Government expenditure per tertiary student however, remains well below the OECD average. In 1992, this average was NZ\$10,030 per student compared to NZ's figure of \$6,080 (Manukau Institute of Technology 1996: 3).

TABLE 5.4
Distribution of Education Expenses
(\$ million)

	1993/94 Actual	1994/95 Actual	1995/96 Estimated Actual	1996/97 Forecast	1997/98 Projection
Early childhood education	212	212	233	274	294
Primary and secondary schools	2,297	2,362	2,456	2,626	2,747
Tertiary funding	1,593	1,696	1,780	1,821	1,851
Departmental expenses	297	292	284	299	301
Other education expenses	228	241	268	266	255
Total	4,627	4,803	5,021	5,286	5,448

Source: The Treasury

Total state expenditure on education in New Zealand compares favourably with other OECD countries and is higher than in the United States, Japan or Germany. The important difference, however, is that unlike in New Zealand, private spending on education in these three countries makes a significant contribution to total spending on education. Demographic considerations, particularly the youthfulness of the population have important implications for educational spending. The 'GDP per youth' which is GDP per population aged under 19, is a broad indicator of resources potentially available for education

spending. This measure is only half that of Germany's while the average per capita GDP of New Zealand is three-quarters of the German level (OECD 1993b: 90). In the light all of the foregoing, therefore, there appears some justification in the assertion that in New Zealand,

the public sector's commitment to education would seem to be strong; what appears to be called for is not so much an increase in resources but rather their reallocation, and efforts to get better value from them (OECD 1993b: 91).

In addition to other accompanying considerations, this statement should be borne in mind in the examination of recent changes to the education system and education reform covered in the next section.

5.3 Building New Zealand's Human Capital Base

Recent structural changes in the New Zealand economy have resulted in rapid growth in the contribution of service sector employment to total employment. This share increased by 5 percentage points over 5 years, to take the share of service sector employment to over 70% in 1991; with this sector expected to generate over 85% of net new jobs over the next 5 years (Haines 1989). The New Zealand Planning Council publication *Tomorrow's Skills*, pointed out that occupations requiring higher levels of education, particularly in the service sector, are experiencing rapid growth while unskilled and semi-skilled occupations, chiefly in the manufacturing sector, are declining significantly. The report also highlighted the need to upgrade skills across the whole economy (Callister 1990). Moreover as already pointed out New Zealand's low labour productivity levels, necessitate improvements in the human capital base for improved growth performance. The education sector has also been one of the important areas of scrutiny, in line with general public sector reform and welfare state restructuring that took hold in New Zealand in the second half of the 1980s.

5.3.1 Education Reform and Restructuring: Initial Steps

From the mid 1980s the education system in New Zealand has undergone substantial reform and restructuring. Working groups appointed in the late 1980s by the fourth Labour Government to examine the education system, led to several reports and ensuing ministerial policy statements: the Picot Report (1988) and *Tomorrow's Schools* (Minister of Education 1988); the Hawke Report (Hawke 1988) and *Learning for Life* (Lange and Goff 1989); the Meade Report (Meade 1988) Report and *Before Five* (Department of Education 1988).

The Picot Taskforce to Review Education Administration, was appointed in July 1987. The ensuing Report criticised the existing structure and management of the education system as too centralised and complex, lacking in information, choice and efficient management practice, and leading to 'feelings of powerlessness' and 'consumer dissatisfaction and disaffection'. The remedial action determined by the Taskforce was that:

Individual learning institutions will be the basic unit of education administration. This is where there will be the strongest direct interest in the educational outcomes and the best information about local circumstances. People in the institutions should make as many of the decisions that affect the institution as possible - only when it would be inappropriate should decisions be made elsewhere (Picot Report 1988: xi).

Education reform that followed on from the Picot Report centred on the principles of greater contestability and competition between providers, enhanced student and parent choice and increased decentralisation of decision-making, management and control. There is also a belief, however, that underlying these reforms, are also 'deep-seated contradictions':

The fundamental contradiction is between a democratic imperative for more community participation in decision-making, and an economic imperative for tighter controls over public expenditure. These conflicting imperatives are a direct consequence of the crisis that has beset the New Zealand state in recent years (Codd 1990: 191).

At the school level, substantial administrative changes have been made. The ensuing change encompassed in the 'Tomorrow's Schools' approach has involved parents and communities in the governance of schools. Decentralisation of administrative structures of schools resulted in the abolition of the regional education boards which administered the primary and intermediate schools and the system of boards of governors which controlled the administration of each secondary school. The Department of Education was also abolished and replaced by the Ministry of Education whose functions were split into three areas: policy formulation and advice, policy implementation and property services.

Under the new system, schools were to be run by locally elected boards of trustees. The board comprised five parents elected from the parents of the pupils of the school, the principal of the school, a staff representative and for secondary schools there was also a pupil representative. Additionally, it was possible for boards to co-opt up to three more members,

to ensure that the board properly reflects the composition of the community, or to ensure that particular expertise is represented and available to the board (Picot Report 1988: 50).

This latter option may be seen as a safeguard to ensure adequate representation of ethnic minorities, particularly Maori and Pacific Island people on boards and to allow 'outside' expertise to be brought in if required. The first elections for boards of trustees were held in April 1989.

The education reforms gave effect to two accountability mechanisms: voice and exit. Parents were given a voice in the management and spending decisions of the school through appointment of their own parent representatives on the Board of Trustees. The removal of zoning meant that they could exercise their right of choice by not sending their children to the local school.

The expected benefits of the new system were greater flexibility, local control and choice chiefly in the allocation of funds, staffing, and

competition between schools for students. The issue of effective involvement in school governance however, was not given due consideration when these changes were implemented. The low levels of administrative and management expertise in low income areas has meant that in these areas school trustees often lack the ability to ensure sound governance. Inadequate training of often overburdened volunteers, who are expected to ensure that their schools function effectively, has contributed to the current low standards of education in several schools in urban disadvantaged areas such as Otara and Mangere in South Auckland. A recent Education Review Office report on these schools in South Auckland argues that although the 45 schools in this region are located in disadvantaged socio-economic contexts and 37 of these schools are classified as having the highest level of national socio-economic disadvantage, the poor performance of the board of trustees, the principal or the teaching staff are important contributory factors in the poor educational outcomes of students in approximately 80% of these schools (Education Review Office 1996). A strong correlation exists between shortcomings in the governance performance of trustees and weak or failed teaching provision. The Education Review Office identifies the following as the most common symptoms and causes of poor board performance:

- trustees who do not exercise their governance role;
- trustees who have limited understanding of their governance role;
- trustees who lack the necessary technical knowledge and management skills;
- trustees who have no sense of the need for management systems as a necessary precondition for proper accountability and informed decision making;
- trustees whose English language skills adversely affect their operational capacity; and
- trustees who defer instinctively to the professional authority of the principal (Education Review Office 1996: 8).

It is clear that the Tomorrow's Schools model has worked well in schools where there is no shortage of parents with the professional skills necessary for proper management. In communities lacking in these skills, such as the urban disadvantaged South Auckland communities of

Otara and Mangere, however, the devolution of responsibility to the community has reinforced:

the contradictions inherent in the policy itself, particularly the contradiction between choice and equity (Codd 1990: 204).

Reform has not been accompanied by a government enabling process of adequate and appropriate training for trustees to perform the tasks required of them. The generic training approaches available to school boards are also likely to be ineffective because they are:

often delivered off-site and in a manner not easily understood by trustees; not clearly related to the needs or contexts of their particular schools; and without the capacity to provide on-going support (Education Review Office 1996: 13).

There is, therefore, a need for appropriate and on-going training and support for trustees if they are to develop the skills of governance needed to run 'Tomorrow's Schools'.

The establishment of a *Schools Strategic Development Centre* is one of the Education Review Office recommendations to help overcome the management problems faced by schools such as those in Otara and Mangere. The Schools Strategic Development Centre would be a Crown entity which would provide a range of brokered (rather than directly provided) services, in order to facilitate the strategic development and management of these schools. The minimum range of services should include professional advice, needs analysis, training and well-targeted support in the areas of: human resource, curriculum, financial systems and property development and management; and public relations and marketing, truancy and key student health services (Education Review Office 1996: 15). Thus for example the Schools Strategic Development Centre would broker high quality teaching in service training packages which will be tailored to meet the specific requirements of teaching in Mangere and Otara schools. The Education Review Office envisages the Schools Strategic Development Centre as a Crown entity because current low levels of demand make it unlikely that private providers will enter the market initially. This is one example therefore, which illustrates the importance of appropriate government intervention in the education

arena. The Education Review Office also sees a role for government in providing financing for substantial incentives for recruitment of new staff and secondment of 'strategic support teachers', as well as exit incentives for poorly performing staff in these schools.

Although the Education Review Office does make some sound recommendations for alleviating the problems faced by under-performing schools, the public highlighting of these problems and failures, is nevertheless

at the cost of tainting a large community and its schools. A key element in education is the self-esteem of everyone involved and the communities involved are now struggling to regain their confidence. It could lead to further fragmentation and an increase in the exodus of students and teachers rather than reform (Principal of Otara's Hillary College, quoted in Sarney 1996).

The outflow of students from schools that are perceived to have a lower reputation, only aggravates the problem of financial and human resources. Thus for example, the Hillary College student roll has declined steadily from 700 in 1989 to 420 in 1996. The resource implications of this outflow from the school are compounded by non payment of fees by more than two thirds of parents. Widespread media publicity of educational problems also makes it more difficult to attract quality teachers to the area, especially in the current context of a grave nation-wide teacher shortage.

It cannot also be down-played, as the Education Review Office report does, that poverty has a strong influence on ability to learn as well as ability to teach effectively. As bluntly stated by the principal of Bader Intermediate, Mangere:

before you can teach that one and one makes two you have to make sure that your students aren't hungry, and that they haven't been beaten up the night before, that they have pencils to write with. In other areas you don't have to worry about things like that. You just teach (quoted in Ferguson 1996).

There is strong evidence of food inadequacy among significant numbers of children in Manukau City. 31 schools and 4 kohanga-reo receive food through the Manukau City Food Coordinator and between 800 and 1080 meals per week are prepared for hungry children on school food programmes (Burge 1996).

General social conditions contribute to educational problems in these poorer areas. It is not, therefore, only a matter of education policy and financing, but rather other policies as well, that are needed to tackle educational problems. For instance, housing conditions can contribute to low educational attainment and housing policy in turn affects housing conditions. The 1993 Manukau City housing study revealed that in the suburbs studied there are a substantial number of households experiencing a considerable degree of overcrowding and housing stress and overcrowding in Manukau City had increased between 5-20% since the 1991 Census (Auckland UniServices 1993). Poor housing in turn impacts on health and thereon, once again on educational attainment. Thus, cold and damp housing was suggested to link with the high rate of asthma, pneumonia and respiratory disease among Maori and Pacific Island people in Otago (Mitchell 1995: 17)⁶.

Reform at the pre-school level revolved round the Meade Report (Meade 1988) which was the outcome of the working party on early childhood care and education, set up by Cabinet. Highlighting especially the diversity of provision (over 20 different types of organisation) and the multiplicity of government funding formulae (26) for providers, it pointed out that diversity did not necessarily equate with choice. Differences in funding levels and quality and the lack of availability of the range of services in any one area, meant that acceptable services at affordable prices were seldom available where needed.

The present hotch-potch of provision and the distribution of children among them have more to do with historical and locational accidents than the current needs of children and their families. Places are not targeted for low socio-economic status children where demand exceeds supply (Meade 1989).

⁶ See Koelmeyer 1995 for an 'insider' comment and discussion of health problems in Otago.

The Meade Committee concluded that there was no sound social or educational rationale for the existing diversity in availability, accessibility and affordability across communities and services. Among the recommendations of the Committee were: non differentiation among services and a single formulae for funding, conditional upon the negotiation of a charter with the Ministry of Education; Charters set within a framework of national guidelines and accepting a mandatory set of minimum standards; additional targeted assistance for low income families; and the establishment of a state funded support agency called the Early Childhood Development Unit to provide advisory services, professional and curriculum development and co-ordination functions. The Meade Report was well received by those with an interest in early childhood care and education, particularly since it was clear on the appropriate role for state in this area. For instance, May wrote:

Its holistic view made clear that Government support for Early Childhood Care and Education was not only about providing good quality education for the under fives, but was also about supporting women, and in the case of Maori and Polynesian communities, it was a question of cultural survival (1990: 104).

The 1989 policy government announcements contained in the booklet *Before Five*, took on board most of the Meade recommendations and also announced significant increases in funding for early childhood services. The Early Childhood Development Unit, the crown agency recommended in the Meade Report was also established.

A significant recommendation of the Hawke Report⁷ which examined the post-school education sector⁸, was the introduction of user-pays for the sector. It recommended that:

a system of student fees and government loans similar to that recommended in Australia by the Wran Committee should be adopted (Hawke 1988: 9).

⁷ Commissioned by the Cabinet Social Equity Committee. Some of the working party members disassociated themselves from the findings and the report was presented as being written by Convenor Professor Gary Hawke.

⁸ A year earlier the Watts Report (1987) which was the result of the Vice-Chancellors' Committee appointed review committee, had also examined university education.

Standard tertiary fees were subsequently introduced, with the full time student fee being \$1250 in 1990. This was increased to \$1300 in 1991, though a fee subsidy for students from low income families, effectively reduced the average fee to \$850. The recommendation of a loans scheme was not implemented at this time. It was only under the National government, in 1991, that substantial changes were made to tertiary education and training, including the introduction of a state run income-contingent student loans scheme.⁹

The National Qualifications Framework also had its immediate origins¹⁰ in the Hawke Report and was instituted, together with the establishment of the New Zealand Qualifications Authority,¹¹ by the July 1990 Education Amendment Act. The National Qualifications Framework and other post 1990 reforms are examined in the following section.

5.3.2 Further Steps to Build Human Capital

After more than three years work by Government, Ministry of Education and other government agencies, as well as a public consultation process following the release of the draft discussion document in 1993, a strategic plan, *Education for the 21st Century*, to build New Zealand's education system for the twenty-first century, was issued (Ministry of Education 1994). National education aims for the twenty-first century, which form the basis for education policy, formally recognise the importance of human capital in the new phase of world development and include:

Attainment of qualifications to enable all to participate successfully in the changing technological and economic environment

A highly skilled workforce at enterprise and industry level to enhance New Zealand's international competitiveness (Ministry of Education 1994: 22).

⁹ For details of National's changes to tertiary training and education in 1991, see Boston 1992.

¹⁰ For information on the early origins and the philosophical roots of the National Qualifications Framework, see Chamberlain 1996.

¹¹ The Hawke Report recommended the establishment of a new organisation, the National Education Qualifications Authority.

This formal recognition that economic considerations were of central importance in the determination of educational systems and outcomes represented a firm break with past traditions. Thus in 1983, a review of national educational policies had observed that in New Zealand, more so than in most other member countries, social and cultural rather than economic and instrumental values are predominant in the thinking underlying the formation of educational processes and practices (OECD 1983). Yet, as pointed out in the OECD Economic Survey of New Zealand, even several years after dramatic structural reforms of the mid 1980s, a draft National Curriculum made no mention of the changing economy or altering employment patterns. It was only in 1991, that a new draft recognised economics as one of the central disciplines (OECD 1993b).

Building right from the initial years of early childhood, the strategic plan:

outlines the vision of a seamless education system which can maximise participation and achievement in education and training from birth throughout life (Ministry of Education 1994: 4).

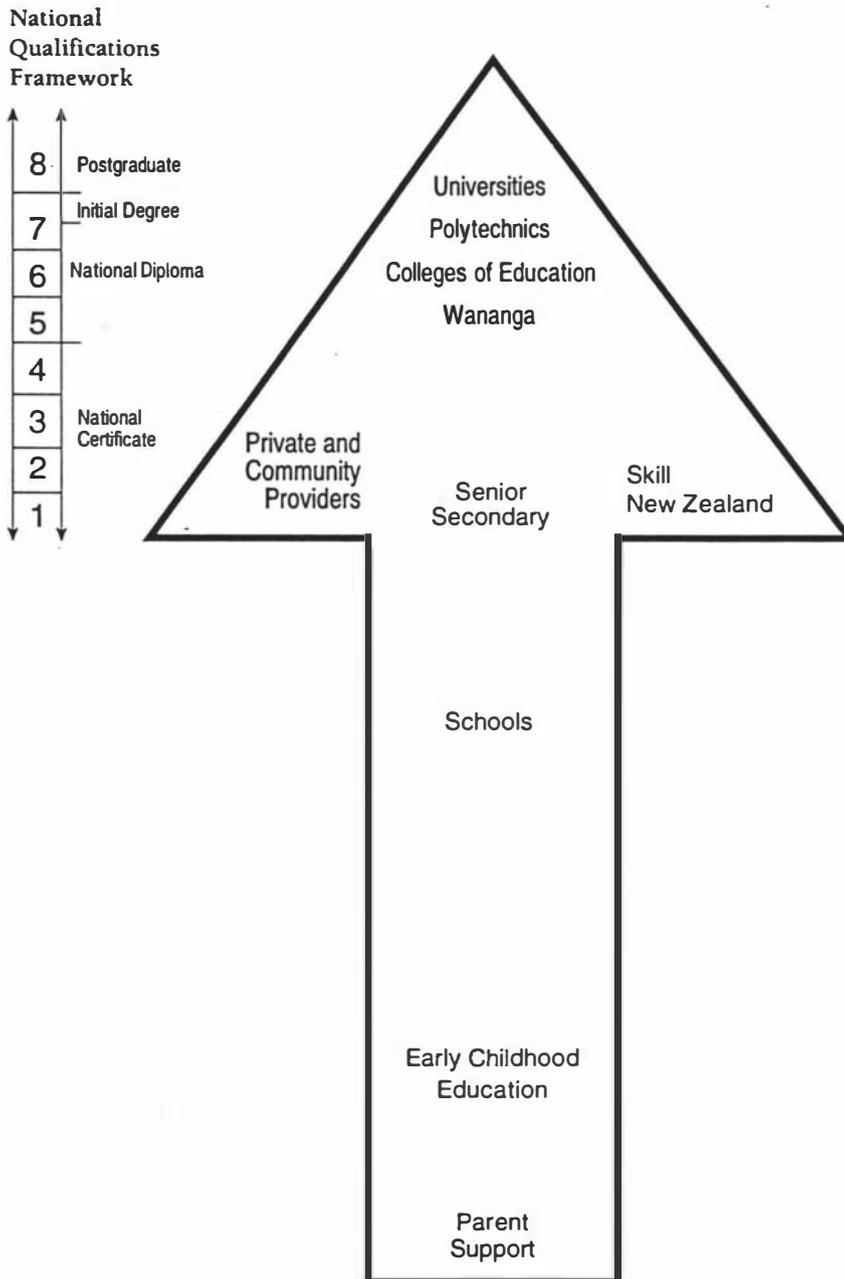
This vision is echoed in the vision statement of the Ministry of Education:

‘Building a world-class education system in a lifelong learning society’.

The components of New Zealand’s life-long, seamless education system, for the twenty-first century, as illustrated in figure 5.1 are:

- Parent Support and Early Childhood Education
- Schools from classes J1 to Forms 5
- Senior Secondary School (currently Forms 6 and 7)
- Post School Education and Training:
 - * Universities, Polytechnics, Colleges of Education, Wananga
 - * Skill New Zealand
 - * Private and Community Providers

FIGURE 5.2
The Seamless Education System



Source: Ministry of Education 1994

The new National Qualifications Framework administered by the New Zealand Qualifications Authority (NZQA) is a key feature of the lifelong education and training strategy. Together with the *Skill New Zealand* strategy which is a co-ordinated approach to education and training aimed at raising the skill levels of New Zealanders, it is designed to

develop a highly skilled, flexible and productive workforce so that New Zealand may compete effectively in a global economy.

Skill New Zealand will:

build a unified training culture in New Zealand that will affect the way everyone of us learns and trains throughout our lives, as we approach the 21st century (ETSA and NZQA 1993: 4).

The National Qualifications Framework will:

for the first time bring a consistent approach to education and training, offering a logical variety of pathways for people to gain nationally recognised qualifications (NZQA 1994: 12).

The fundamental component of the National Qualifications Framework is the development of unit standards which specify the criteria or learning outcomes, needed to be met in given areas of skill and knowledge at one of the 8 levels of learning on the National Qualifications Framework(see figure 5.1). These standards are registered on the Framework and on completion students receive credits toward qualifications. There has been concern particularly in the education sector about issues on the implementation of unit standards, their proposed universality across all levels and education providers and the incorporation of merit.

It is intended that all levels of study will be incorporated onto the National Qualifications Framework. The objective of the National Qualifications Framework is to recognise all education and training towards national qualifications ‘within one coherent system’ (Ministry of Education 1994: 16). To this end therefore, the Tertiary Lead Group was set up by the Minister of Education, with terms of reference which included the resolution of issues relating to the inclusion of degrees into the National Qualifications Framework. This Group concluded that both national and provider degrees should also be included in a ‘single harmonised qualifications framework’ (Ministerial Tertiary Lead Group 1994). The appropriateness of the National Qualifications Framework

for university study programmes is, however, questionable on several grounds (see for example, New Zealand VCs' Committee 1994).

An important feature of the seamless education system is that it gives explicit formal recognition of the importance of *all* forms of education, including pre-school education, and incorporates early childhood care and education (ECCE) as an integral part of the education system. This is a step in the right direction since as May stresses, over the past century in New Zealand, several distinctive features underpinning the growth and development of early childhood services,

have served to separate and/or exclude ECCE from the mainstream education services (May 1990: 96).

The belief that family and parents lay the foundation for all learning has also been incorporated as part of the system. The Parents as First Teachers (PAFT) scheme, launched in 1992, is considered an important facet of government parental support and has received increased funding in successive budgets. This scheme is based on a Missouri parent education research project and also has a child health emphasis. Parents are taught parenting skills in the home, and this is expected to improve children's language, physical, and social development. This programme is intended to empower parents so that:

they will become more confident in their parenting role and participate more effectively in the development and education of their children (Statistics New Zealand 1996: 193).

It should, however, also be pointed out that though the objective of the Parents as First Teachers (PAFT) scheme is child development, some covert objectives may lie beneath the surface. The covert aims of PAFT consist of the promotion of family values which is often linked to a conservative philosophy. The scheme also promotes the underlying objective of self reliance - a gradual move away from state provision of educational services.

Developments in the area of early childhood care and education also include, following the issue of a draft in 1993, the launching in 1996, of an early childhood education curriculum, *Te Whariki*, covering children from birth to 5 years in any educational setting. The curriculum adopts a bicultural approach and sets out the principles and goals of early childhood education, yet allows the diverse categories of providers to maintain their own distinct character. It incorporates elements of both traditional Piagetian views of child development and recent theoretical perspectives which stress the importance of social and cultural contexts for early childhood care and education (Farquhar 1995, Cullen 1996). It has, however, been suggested that 'the theoretical richness of *Te Whariki*' is unlikely to be generally understood and 'for the busy practitioner' its,

implementation is likely to be constrained by a superficial understanding of its rationale and implications for practice (Cullen 1996: 118).

In line with the emphasis on the 'seamlessness' or educational continuity stressed by the strategic plan for education in New Zealand, *Te Whariki* gives consideration to the flow-on of early childhood education through to the school education. For instance Cullen (1996) points to the link up with *Te Whariki* and the National Curriculum Statements for Mathematics and Science.

There is a strong link between early childhood care and education and labour market participation of parents. Cost, affordability¹², availability and ability to meet families changing patterns and hours of paid work, affect both the choice of early childhood care and education provider and the ability of parent participation in paid employment. Language maintenance has also become an important issue in some communities in relation to provider choice. If the state is to be an effective enabler of labour market participation and hence private welfare provision, therefore, early childhood care and education is an area deserving of close attention. It would appear however, that the state is falling short

¹² Changes to the Department of Social Welfare childcare subsidy have also affected affordability. For details see Early Childhood Education Project 1996: 86-7.

in this area. A recent report, has identified problems in the current funding and government support of early childhood services. Quality is eroding due to inadequate government funding and a poorly planned and co-ordinated approach to early childhood services. Funding inadequacies have had a major impact on obtaining staff, providing children with access to quality education and the delivery of appropriate curriculum to Maori and Pacific Island children. The report asserts that funding of early childhood services 'should be treated on an equitable basis with the schools sector' and recommends universal funding similar to schools by the year 2000 (Early Childhood Education Project 1996: 53). In the light of research findings that participation in pre-school education has a positive impact on later life chances (see for example Ball 1991: 9), it makes good sense to re-visit funding and quality issues of early childhood education.

A vital component of the *Skill New Zealand* strategy is an industry-driven approach to training. Industry's role in the strategy is set out in the Industry Training Act 1992, which aims to increase 'the quality, relevance and amount of industry training in New Zealand'. The key to achieving this is the ability for industry to form Industry Training Organisations (ITOs), supported by government funding, which will set national industry skill standards on the National Qualifications Framework, develop on-job and off-job training for their industries, and monitor assessment of trainees. An Industry Training Organisation is defined as any two or more like enterprises who wish to join together for training purposes. The Industry Training Strategy is an important part of the thrust to develop a highly skilled and adaptable workforce as demanded by the imperatives of the global economy. The strategy is designed to:

- extend systematic training to industries and occupations which do not currently have formal training systems,
- ensure that existing industry training arrangements can be developed to meet future needs, and
- provide for training to national industry standards (ETSA 1992: 4).

A range of Industry Training Organisations have now been formed across several industries. For example the Organisation for the computing industry is CITAG: Computing and Information Technology Advisory Group, comprising representatives from the computer industry, polytechnics, secondary schools and the New Zealand Computer Society. As at mid 1996, it has 50 unit standards registered for levels 2 and 3 of the National Certificate in Computing, another 230 units proposed for the National Certificate in Computing (to levels 4 and 5) and a National Diploma in Computing (to levels 6 and 7), with work also being carried out for the development of a National Degree in Computing. Bigger, well organised Industry Training Organisations such as CITAG have thus made progress with the formulation and registration of unit standards on the National Qualifications Framework and the setting up of assessment methodology and moderation processes to ensure the quality and standard of qualifications. Some Industry Training Organisations, are however, experiencing continuing problems in accomplishing the writing of the required multitude of unit standards¹³. After 4 years of the system, unit standards do not exist for many courses. The belief is that Industry Training Organisations will develop:

a new systematic training system which will seek to extend workplace training across all industries, including those industries where little or no systematic training was done before (Ministry of Education 1994: 16).

The current reality is rather different. The onus is now on employers to organise training, with the government providing a smaller percentage of total costs and some employers less supportive of the system.

The number of ITOs have already grown to an excessive number of 53. Some of the ITOs have managed reasonably well. Most have struggled with a lack of resources to provide the kind of portable training needed by the new economy (Maharey 1996: 19).

¹³ As a member of the Economics Advisory Group to the New Zealand Qualifications Authority, I have been directly involved in the writing of unit standards in economics and point out that the process is both time consuming, requires considerable expertise as well as goodwill on the part of those with the expertise, to provide their expertise on an unpaid basis.

State under-funding of Industry Training Organisations has meant that cut backs in training have had to be made and problems have led some employers to distance themselves from the system. For example the Bankers Institute has recently announced that it no longer wished to be an Industry Training Organisation and that individual banks would manage their own training (Maharey 1996). Concerns have also been expressed by business (Watties Frozen Foods and Fisher and Paykel, two large employers in New Zealand) that the Industry Training Organisation standards and definitions of competency may be too rigid. It is reported for instance that managers at Watties Frozen Foods believe that taking industry standards on board 'would drag the company backwards' (Smith 1996: 27).

The recent OECD economic survey on New Zealand contends that:

The performance of different ITOs has so far been mixed and there may be some scope for rationalisation of their number. In this respect, the largely voluntary nature of ITOs augurs well for continual evolution of training in the direction of industry needs (OECD 1996b: 78).

Industry Training Organisations are expected to purchase training from a variety of public and private providers. One of the core ingredients for success of the Industry Training Organisation system is the accreditation of training providers who bid for Industry Training Organisation tenders for training courses. Some polytechnics are, however, having difficulties in adjusting to this new system (Hotere 1996).

Simultaneously with the introduction of the Industry Training Act, the Apprenticeship Act was abolished. Many employers thought then that this meant that the apprenticeships no longer existed.¹⁴ Apprenticeships fell to an all time low of 11,743 recovering since then to 19,740 including apprenticeships, trainees and cadets but still less than half the numbers in 1985 (Maharey 1996). Nevertheless the old

¹⁴ Apprenticeships continue largely as previously except that now instead of an apprenticeship contract, apprentices have an employment contract and a training agreement (ETSA 1992).

apprenticeship system had produced only limited numbers of apprentices due to the narrow trade focus and prescribed nature of the system. Furthermore with structural changes within employment and the decline in job creation in traditional manufacturing and trade areas, which were the sectors chiefly covered by old apprenticeship arrangements, the number of apprenticeships being offered had already begun to decline (OECD 1993b: 98). It may therefore be inferred that the new industry training system will be an improvement on the old after what are hopefully transitional problems are ironed out in the future.

There remains, nevertheless, probably an inherent shortcoming of the system that needs to be rectified: there is little evidence to show that the current Skill New Zealand policies and publicity will make industry provided education and training as accessible to women as to men. Women's patterns of labour force participation, often with breaks in participation for child bearing and rearing, makes re-skilling and up-skilling of importance. If, however, access to industry-based training and education is linked to current participation in industry, women will have only limited access to such skill acquisition (Davies and Jackson 1994).

5.3.3 Labour Market Training Programmes

Since the mid 1980s, job training received increasing recognition as an important solution to unemployment, particularly for young people. A joint Ministerial release in July 1985, *Skills for Young People: A Discussion Paper on Transition Education and Training*, acknowledged that:

low-skilled jobs, which people could use as a base to build on, are simply not as plentiful as they once were (Ministers of Employment, Education and Maori Affairs 1985: 4).

Education and training was seen to be necessary to provide the skills for young people to aid their transition from school to employment. It was highlighted that the proliferation of schemes that existed for young

unemployed people needed enhanced co-ordination, administrative simplification and provision for the encouragement of progressive training (Catherwood 1985).

The heightened emphasis on state job training programmes was also in accordance with trends in other OECD countries. Substantial changes in labour markets have led to concern about the skills levels of the workforce and a subsequent interest in the role of state funded labour market training programmes in enhancing skills and productivity.

New Zealand's ACCESS training programme commenced in April 1987, to enhance the job prospects of those who were disadvantaged in the labour market and for whom traditional training methods were either unsuitable or unavailable.¹⁵ Although smaller scale training programmes had been in operation since 1978, for example the Training Assistance Programme, the Young Persons Training Programme and the School-leaver Training and Employment Preparation Scheme, the development and large scale scope of the ACCESS programme confirmed training provision as the preferred state response to unemployment. The emphasis now definitely had moved from:

job creation in favour of new programmes whose emphasis was on training for work related skills (Department of Internal Affairs 1990: 23).

Under ACCESS, training was targeted to the needs of people identified as being at disadvantage in the labour market. Its broad goal was to improve the prospects of such disadvantaged individuals and groups in the labour market while making best use of resources. Within the overall goal, the Government identified a number of more specific goals:

- (a) to ease individual entry or re-entry into the labour market, by enabling them (the unemployed) to acquire vocational skills;
- (b) to enhance the individual's ability to enter or re-enter the workforce, by promoting the acquisition of skills, necessary for working life;

¹⁵ For a discussion of the origins and development of Access see Gordon 1990.

(c) to provide a skill base for further vocational development, which will enhance long-run employment and earning potential of participants (AJHR 1987 G.1: 44).

Through ACCESS training, therefore, the state would be well-being enabling, providing the unemployed with the means for the acquisition of skills in order to secure their own welfare. Programmes were offered by a variety of community, private and public training providers and covered a range of courses including life skills, vocational and work-based training. An ACCESS course was a discrete entirety, allocated to the training provider through a tendering process administered by the Regional Employment and ACCESS Council (REAC). This devolution of management decisions to the local level was in line with the current ethos of education administration. MACCESS was the complementary Maori delivery system, constituting around 20% ACCESS training and recognising the demand that Maori people should have more control over resources and solutions to their problems (AJHR, 1987 G.1).

The Education and Training Support Agency is a government agency established by the Education Amendment Act 1990. Its purpose is:

to develop and administer programmes relating to non-institutional labour market education and training. In particular the agency focuses on upskilling those groups and individuals whose needs are currently not well served by traditional labour market institutions and who respond to training with a clear market focus (Department of Statistics 1992: 227).

The Education and Training Support Agency thus became responsible for administration of government funded training programmes: ACCESS and the Training Opportunities Programme, which superseded ACCESS. It also currently also administers other skills development programmes: Skills Pathways and Skill Enhancement. All these programmes, covering a wide range of training provision, are run by training providers contracted by the Education and Training Support Agency on a regional basis. As shown in table 4.2, training programmes are now the largest component of active labour market measures in New Zealand and public expenditure on these programmes amount to 0.34% of GDP.

There is a growing body of literature that shows that government funded training schemes intended to augment the skills, do little to improve either the job prospects of the unemployed or their earnings capacity. In many cases the performance of training schemes in successful job placement appears to reflect rather than overcome, prevailing economic conditions. In New Zealand, the failure of the ACCESS training programme to lead to successful employment outcomes for many trainees during recessionary times is well documented (Boswell and Brown 1990, Dominick 1993, Gordon 1990, Mulengu 1994, Spoonley et al. 1993).

A detailed study of the effectiveness of ACCESS training found that in general, those at the margin of the labour market, namely those with lower educational qualifications, Maori ethnicity, unemployed for periods of close to 12 months (most of 1989), and/or had little work experience, benefited from the training. For those participants who met all four of these characteristics, however, while employment outcomes were not high, they were in all instances higher than those predicted for their Job Seekers Register¹⁶ counterparts. The study showed that factors improving an individual's chances in the labour market were: attendance at work-based or vocational training, higher levels of education, European ethnicity, knowledge of and opportunity for further training and the provision of links into the labour market by training providers (Dominick 1993).

As an explanation for the ethnic differential in labour market outcomes, Manatu Maori (1991) suggested that occupational segregation and employer discrimination may contribute. The Dominick study also appears to confirm this suggestion. The Dominick evaluation stressed that:

success of Training Opportunities will depend on the provision of linked courses through which trainees can progressively build on their skills and on the encouragement

¹⁶ The Job Seekers Register is kept by the New Zealand Employment Service, contains the records of those registered with New Zealand Employment Service and helps to match jobs seekers with employer vacancies.

of more disadvantaged trainees to develop their skills in this manner (Dominick 1993:128).

Other studies too show that the ACCESS programme did not lead to staircasing or progression into more advanced training (Lauder et al. 1988, Ferguson and Miller 1993).

The final Dominick finding on the importance of provision of links into the labour market by training providers is of crucial importance. Several overseas studies confirming this finding and generally questioning the overall effectiveness of labour market programmes, were summarised in a recent article in *The Economist*. It is pointed out that even in Sweden, whose relatively high spending level on active labour market policies is often held up as 'the way to go', the effectiveness of these programmes is in serious doubt. The Swedish Parliament commissioned study of these active labour market policies, including job-search assistance, training and relief work in 1995. The study concluded that retraining only marginally increased the chances of employment and it did so at a higher cost and to less effect than much less costlier, simple job search advice (The Economist 1996).

Analysis of British training schemes too shows there is little net benefit from these schemes. A study by Peter Robinson of the London School of Economics, argues that accounting for the fact that there is both 'deadweight' in that the programmes cater for some who would have found jobs in any case, and a substitution effect with jobs being found at the expense of others, the true benefit of such programmes is questionable. The Youth Training Programme which has an annual intake of around 200,000 sixteen and seventeen year olds, has a disappointing performance record. A government study of the scheme conducted in 1994 found that there was a 50% drop out rate before completion and those who did complete had an unemployment rate of 27% which was much higher than for the age group collectively. Evaluation of Training Enterprise Councils who are private agencies contracting to government to provide training, by a House of Commons Select Committee reporting in February 1996, showed that:

only 27% of adults in Training Enterprise Councils courses had work; even the best courses reported a success rate of less than half (The Economist 1996).

Detailed evaluation of New Zealand's Training Opportunities Programme training is currently being carried out and the results should prove interesting both to assess the extent that the training has enhanced participants' productive skills and earnings capacity (enabling private provision of welfare), and to compare results with similar schemes, such as the British Training Enterprise Councils, overseas. Indications are that there is plenty of scope to improve the effectiveness of the Training Opportunities Programme in the light of the small number of trainees that move into employment after completion of their training programme. For instance, in its submission to the Prime Ministerial Task Force, the Education and Training Support Agency highlighted the superior employment outcomes of trainees who undertake work-based training (34% as against 17% of all Training Opportunities Programme trainees) and recommended an increase in the availability of work-based training (PMTF 1994d: 15).

It is reported that studies of government training programmes for the labour market disadvantaged in the United States, costing US\$5 billion, have also been shown not to yield much benefit. A study of the largest of these programmes - The Job Training Partnership, found that the training received by under 21 year olds made no difference to whether they got a job or not and may even have caused loss of earnings for young men (The Economist 1996).

In Germany, the highly regarded 'dual-education system', where the majority of 16 year olds enter into an apprenticeship contract with a local firm to work part-time for below entry-level wages while receiving firm training and simultaneously attending vocational school, is proving to be less of a solution to unemployment in the face of an adverse economic climate of high unemployment of 11.1%. Around 50% of those unemployed are graduates of work based apprenticeships. In the past when unemployment was low, upon completion of their apprentice training most obtained jobs with their trainers or at least in the field of

their training. Now, however, once apprentices have to be paid adult wages, many of them are priced out of the labour market. Thus 90,000 well trained German builders are unemployed while twice as many foreign migrants work on German construction sites (The Economist 1996). This highlights the constraints imposed by the New International Division of Labour with employment depending crucially upon wage costs as a basis of firm competitiveness. A serious shortcoming of the dual education system is its current inability to meet the demands of the new technological style. It produces an excess of skilled blue-collar workers but relatively few lesser-skilled but flexible workers able to move easily between tasks and now in demand by businesses using intelligent computer-controlled machinery; and even fewer low-skilled cheap workers that would help businesses cut labour costs. German training programmes outside the dual-education system, show similar poor results having no significant impact on improving job opportunities for short or long-term unemployed (The Economist 1996). Successful job training programmes have tended to be small and focused, more expensive and closely linked to local employers. California's San Jose Centre for Employment Training, for example, had individual tailored plans for participants and linked them with employers in the locality. Follow up study revealed that three years later these trainees were earning much more than similar workers. In Australia, participants in the Skillshare programme that were referred direct to employers were more likely to obtain a job and retain it than their other counterparts in the programme. Similarly, in the United States, Job Partnership trainees who had targeted on-the-job training, for instance women who were trained to be licensed practical nurses in hospitals nearby, had better employment prospects (The Economist 1996).

LaLonde (1995) provides a brief history of US training programmes and their evaluations. He asserts that the best summary of the evidence is 'that we got what we paid for' and suggests the development of new probably more intensive high-cost services:

Unless policymakers can develop such services, the promise of public sector programs to improve the skills of

economically disadvantaged and dislocated workers is limited (LaLonde 1995: 150).

Given the disappointing record of larger-scale government sponsored training programmes devoted to the uneducated, unskilled unemployed, therefore, some recommendations appear to emerge. They are:

1. The priority should be improvement of basic education as it appears that acquisition of more elementary skills increases the probability of employment more than out-of-job training provided under most training schemes.
2. Help with job search and the linking of trainees directly with employers should be aimed for.
3. More intensive, and probably more expensive, training and employment services with a focus on integrating participants into the economic mainstream should be developed.

Although the caveat that general findings of training programme evaluations must be interpreted with caution, particularly in view of non rigour arising out of methodological problems and differences in programme design making many evaluations non-comparable, must be borne in mind (Jellicich and Lynch 1994, LaLonde 1995), the above overall recommendations are worth heeding. It is also important that eligibility criteria for government funded training schemes be reviewed on a regular basis in order to avoid unintended exclusion of groups that would benefit from such training. For example, Harvey (1993: 23) highlighted that the replacement of the ACCESS schemes with the Training Opportunities Programme disadvantaged women. The Training Opportunities Programme criteria which required trainees to be registered as unemployed for at least six months meant that women with working partners who were ineligible for an unemployment benefit and were less likely therefore to register with the New Zealand Employment Service would be excluded. Similarly single mothers who were recipients of the Domestic Purposes Benefit were required to register with the New Zealand Employment Service and be available for at least 20 hours of work per week. If domestic circumstances made this weekly commitment to work not possible for these women, they were then also

automatically denied access to Training Opportunities Programmes training. Eligibility criteria for Training Opportunities Programmes have been progressively reviewed (see Appendix for current criteria) and have now been widened to include those on the Domestic Purposes Benefit and Widows' Benefit. Several submissions to the Prime Ministerial Task Force also highlighted the need for continuous review of eligibility criteria for job training programmes.

5.2.4 Broad Underpinnings of Education Policy

Education policy cannot be divorced from the wider political and economic conditions which moulds the policy. Codd contends that both the legitimisation and fiscal crises of the New Zealand welfare state have had a direct impact on the direction of post 1984 education policy (Codd 1990). He argues that:

The acute sense of political urgency surrounding the Picot reforms, and the total absence of any objective research or evaluation, are strong indications that there has been a hidden agenda (Codd 1990: 201).

It is also asserted that:

a neo-liberal rationale underlies all recent education reforms, policies and initiatives. The conception of education as a marketplace peopled by rational consumers making choices evolved in the late 1980s and has undergone consolidation in the 1990s (Nairn 1996: 232).

Statements such as Nairn's above, could be however, regarded as rather emotive and should be viewed with caution. Certainly principles of management devolution and parental choice characterise the reform process in the school system and as shown in Section 5.3.1 (see also Ainsworth et al. 1993), and the practice of these principles do not necessarily produce the hoped for outcomes. Devolution presupposes necessary management skills are existent in communities and as Newton and Simiyu point out,

the meaning, process and exercise of school choice will be structured by gender, ethnicity and social class (1994: 20).

The philosophy of the New Zealand welfare state in respect of education can best be summarised by the following statement by a Prime Minister of New Zealand and Minister of Education in the Labour government in 1939:

Every person, whatever her or his level of academic ability, whether he or she be rich or poor, whether he or she live in country or town, has a right, as a citizen, to a free education of the kind for which he or she is best fitted and to the fullest extent of her or his powers (Peter Fraser 1940, cited in Easton 1995a).

In line with the roll-back of the welfare state, however, the education sector has been subject to progressive commercialisation, particularly of tertiary education (Easton 1995a). Increasing private contribution at the tertiary level has been accepted by the government, as a means to contain the size of the state's funding commitment while simultaneously enabling extra growth in student places at this level.

A ministerial Consultative Group with terms of reference to advise the government 'on the appropriate proportion of public and private contributions to tertiary education' was appointed in August 1993 (Todd Report 1994: 164). Private contribution was interpreted solely as the level of user pay or student fees.

The Todd Report presented two options, A and B, on the appropriate level of student contribution. Option A had student fees rising to an average 25% of their tuition costs. Option B would raise the student contribution to 50% of average costs though simultaneously providing increased support for Maori and low income students. Option A was opted for by the Government. The estimated proportion of tertiary costs subsidised by government was set to reduce by approximately 1% each year over 5 years, at the end of which students will be paying the level as set out in option A.

The *Education for the 21st Century* Report (Ministry of Education 1994), detailed a series of aims motivated towards equal opportunity for all, particularly Maori and those with special needs. However, the increased

user pays tertiary policy could be interpreted as a contradiction of this aim. Not everyone has the ability to pay and the mounting student debt burden is of concern. For example, speaking on 'matters of considerable concern' at the 1996 graduation ceremonies, the Chancellor of Massey University appraised the audiences of the

perennial problem of funding and its entwined problems of maintaining internationally respected standards of teaching and research and enhancing academic freedom and autonomy in the face of financial stringency (M_U 16: 10 -17 June 1996).

Attention was drawn to:

deeply worrisome aspects of the student loan scheme... figures acknowledge that the repayment period is so long that it may affect borrowers' incentive to earn and their ability to service mortgages, to save for retirement or to invest in other opportunities... If the student loan scheme continues as at present, it poses a future problem for New Zealanders on a scale similar to that of providing for our ageing population (M_U 16: 10 -17 June 1996)¹⁷.

The above assertions and other long-term economic and social impacts of student debt are, nevertheless, a matter of debate and warrants further detailed research.

Similarly, research must be conducted to verify the argument that the significant increase in tertiary student fees places heavy burden on middle-income families and,

are affecting participation rates for the lower socioeconomic groups and women in particular (McQueen 1995).

Further arguments against the currently operating student loan scheme has also been put forward in terms of equity and work disincentive effects (St John 1994b, Easton 1995a). These views relate to the repayment method of student loans being similar to taxation above

¹⁷ Student loan debt is currently \$1.6 billion and is projected to rise to \$4 billion in a little more than three years time and is estimated to total \$18-\$20 billion by 2014 (NZ Education Review 1 (17): 12, August 23-29, 1996).

certain income levels. The effective marginal tax rates of those students repaying loans thus rises considerably. The impact of higher effective marginal tax rates is particularly relevant for those who are returning to the workforce after a period of unemployment or child rearing. The matter of inter-generational inequity has been another area of discussion. The post-war baby boom generation who benefited from free education state provided education are not subject to the proportional cost recovery that the present generation of students are liable for (Easton 1995a).

The economic rationale for increased user pays in education is based on private rates of return versus social rates of return for education. Investment in higher education and the acquisition of tertiary qualifications definitely enhances the earning capacity of individuals (Maani 1995a). An individual's decision to invest is therefore influenced by this expected private return. The gap between private rates of return and social rates of return at post-school levels of education, may be narrowed by reducing government subsidies to education at this level.

One of the aims that forms the basis of current education policy is:

improvement in the effectiveness and efficiency of resource use in education (Ministry of Education 1994: 40).

Devolution of decision making on resource use to the local level is seen as an important aspect of improving flexibility of the education system to respond to changing needs and improve efficiency. Accompanying this devolution, however is the expectation that the community itself will meet more of the future funding requirements of the schooling system. A clear example of this expectation is the low direct government provision for increased access to information technology. While stating that it is desirable for computer access to increase from the 1994 level of approximately one computer per 17 students to one computer per five students by 2001, it is simultaneously stated that meeting information technology targets 'creates a challenge for the community' (Ministry of Education 1994: 43). Increased local level

decision making responsibility on resource allocation and use, therefore, appears to go hand in hand with greater private funding for education.

Generally, recent education reform in New Zealand has also followed a policy shift common to some other OECD countries. Many OECD countries have seen the need to upgrade skills of the workforce to be competitive with their trading counterparts. In the case of the US, reports such as *A Nation at Risk* and *America 2000* (United States Department of Education 1983, 1991) have highlighted the widening gap in the skills of US workers and the need for education reform. The need to have more industry participation in education and training is usually highlighted (see for e.g. Finegold and Soskice 1988, for the British case). In Australia too, industry participation in education and training has been encouraged and since 1989 there has been movement towards nationally recognised qualifications and competency based training (Bessant 1996). Moreover, the new Howard government's training and reform agenda, is like New Zealand's, linked to industrial relations reforms. The Modern Apprenticeship and Traineeship System (MAATS) is being introduced since as the Australian Minister for Schools, Vocational Education and Training has stressed:

...the current system has not delivered the promised growth in apprenticeship and trainee numbers; it has put off too many employers who see it as rigid and complex ... it has left too many young people unemployed (Kemp 1996a: 3).

and,

The Government's workplace relations reform will make an important contribution to the Modern Apprenticeship and Traineeship System (Kemp 1996b: 7).

Despite the shortcomings and criticisms of individual elements of the education reforms in New Zealand, the entire process should ultimately be viewed from an overall perspective. The basic underlying reason for reform has been a need to provide for the necessary skills base in a knowledge intensive new technological era. Continuous review of the education system from early childhood care and education through to

higher levels of learning is, however, necessary in order to ensure a skilled and adaptable workforce that will meet current and future needs of high value-added manufactured goods and service industries.

5.4 Human Capital of Ethnic Minorities

Low labour market status has been linked to low productivity arising from low education and skill levels. Empirical studies too highlight the relationship between human capital and low socio-economic status. A recent World Bank study of indigenous people and poverty (Psacharopoulos and Patrinos, 1993), for example, shows that education and experience is an important factor in explaining the overall earnings differential between indigenous and non-indigenous workers.

Labour market disadvantaged minorities in New Zealand have low levels of human capital in terms of a conventional definition of human capital. Compared with the total New Zealand population both Maori and Pacific Islanders have fewer formal educational qualifications. This is highlighted in Table 5.5.

TABLE 5.5
Educational Qualifications by Ethnic Group, 1991 (%)

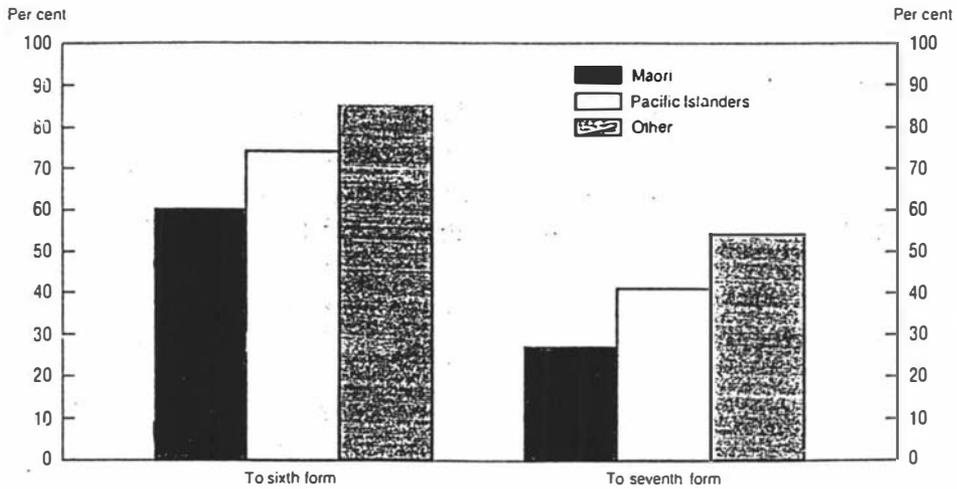
Age (Years)	Pacific Island Ethnic Groups		Maori		Total NZ Population	
	None	Post- school	None	Post- school	None	Post- school
15-24	26	17	37	18	19	25
25-34	41	26	51	26	26	45
35-44	54	22	56	27	32	45
45-54	63	20	64	22	42	40
55+	75	11	68	15	45	27
Total	44	20	50	22	32	25

Source: *New Zealand Census of Population and Dwellings 1991*, Department of Statistics

Consistent with expectations with regard to a migrant population, however, Pacific Islanders who are New Zealand born, tend to have higher levels of educational achievement than those born overseas. This is evidenced by the higher post school educational qualifications of New Zealand born Pacific Islanders. Yet despite the fact that New Zealand born Pacific Island people aged 25 and over are more likely to hold formal, post-school qualifications than either their Island born counterparts or New Zealand Maori, the gap between the educational attainment of Pacific Island ethnic groups and the total New Zealand population is still significant. Although formal educational achievement is low in the older age group, the comparatively lower levels of attainment of the 15-24 age group, is of particular concern. There is a significantly lower retention rate of Maori, and to a lesser extent Pacific Islanders, at all levels of secondary school as illustrated in Figure 5.3. These two groups are also less likely to achieve above average grades. Although over the past decade, education outcomes have improved for Maori and Pacific Islanders, this has run parallel with the general improvement in the educational status of the rest of the population¹⁸, so the gap in educational attainment of these ethnic minorities, persists. The younger demographics of these two groups also heightens the seriousness of this gap, as the relative numbers of Maori and Pacific Island school students have increased significantly. Thus for example, between 1976 and 1994, the number of Maori children in primary schools increased by 25% and in secondary schools by 43% while the number of non-Maori children in primary schools declined by 25% and in secondary schools by 10%. One in five school students today is Maori (Ministry of Education 1995: 7).

¹⁸ Participation in formal education has increased sharply in recent years. Enrollment rates of 17 and 18 year olds have increased from 35% and 19% in the mid 1980s to 65% and 39% in 1992, respectively (OECD 1996: 74). The minimum school leaving age has also been progressively increased from 15 to 16 in 1993 and now to 17 years.

FIGURE 5.3
Secondary School Retention Rates¹



¹ 1995. Secondary education is completed at either form 5, 6 or 7 (ages 15 to 17).
Source: Ministry of Education, cited in OECD 1996b: figure 27.

5.4.1 Closing the Ethnic Education Gap

It is recognised that the lower educational attainment of Maori and Pacific Island Groups is a problem that necessitates specific solutions (OECD 1996b). This section examines the separate education initiatives that have recently been introduced to address this problem.

Initiatives for strengthening Maori language occupy centrality in the strategy to progress Maori education. It is believed that:

Maori achievement in education is intimately linked with the strength and confidence that comes from a clear sense of cultural identity and pride. The renaissance of the Maori language is directly contributing to greater involvement and success in the education system. And that involvement and success is in turn bringing new life and energy to the language (Ministry of Education 1995: 46).

A two pronged approach aims at improved educational attainment for young Maori through emphasis on learning te reo Maori. Education in the medium of the Maori language is being encouraged through the

growth of kohanga reo, kura kaupapa Maori and wananga,¹⁹ and in Maori medium classes in mainstream primary and secondary schools. The latter approach is important because the great majority of Maori students remain within the mainstream education system, despite the sharp increase in dedicated Maori medium education.²⁰

Maori language initiatives receive significant funding support from the Government, as seen in table 5.6. By far the largest area of spending in this area is on kohanga reo which are now a proven success. The kohanga reo movement has resulted in a significant increase in Maori participation in early childhood education during the nineties. Between 1991 and 1995 the number of Maori children participating in some form of early childhood education increased one third to 29,000. 46% of these children were enrolled in kohanga reo. Attention is also being increasingly focused on other areas of Maori medium education. Thus the 1995 Budget allocated an extra \$15.6 million over three years to improving educational achievement through kura kaupapa Maori and Maori language teacher training.

TABLE 5.6
Maori Education Funding 1995/96

Major Expenditure Area	\$000
Kohanga Reo	52,978
Kura Kaupapa Maori	6,020
Maori Advisers & Resource Teachers	3,921
Maori Language Factor Funding	10,121
Teaching Training (including kohanga reo)	7,931
Learning Media (resources)	1,875
Bursaries & Scholarships	6,779
Wananga	3,585
Other	603
Total	93,813

The above table is an estimate of funding being directly applied to support Maori education from Vote: Education.

Source: Ministry of Education

¹⁹ Kohanga reo are pre school Maori 'language nests' or early childhood centres, kura kaupapa Maori are Maori medium state schools and wananga are tertiary education institutions.

²⁰ There were 38 kura kaupapa Maori operating as at 30 June 1995 and 15 new kura are scheduled to open over the next three years (Ministry of Education 1995).

The annual Ten Point Plan for Maori education, *Nga Haeata Matauranga*, sets out the strategy for progressing Maori education over the forthcoming year. Commencing in 1991, these plans have been part of an evolutionary and consultative process, with objectives and actions tailored to meet Maori needs and aspirations and a changing Maori education scene. The key points of the 1995/96 plan (Ministry of Education 1995: 47) are:

1. Increase the opportunities for Maori language learning.
2. Increase participation of Maori children in early childhood education.
3. Support and strengthen kohanga reo.
4. Remove barriers to Maori education in schools.
5. Support and strengthen kura kaupapa Maori.
6. Increase the number of Maori students in training and further education.
7. Develop indicators of Maori education outcomes.
8. Increase understanding of Maori educational needs through research.
9. Develop the Ministry of Education's bicultural perspective.
10. Explore the options for Maori education in the future.

School, Community and Iwi Liaison projects, costing \$1.1 million will be introduced in Northland, the East Coast and South Auckland, over the next three years, as part of the Maori Labour Market Strategy announced in the *Focus on Employment* (New Zealand Government 1995). Included with these projects are an after school rapid maths programme, an intensive te reo Maori programme and a series of science camps.

Realisation that separate education initiatives are necessary for Pacific Islanders has included early childhood education measures. Language centres offer programmes covering a variety of Pacific Island communities in New Zealand: Samoan, Cook Islands Maori, Niuean, Tongan, Tokelauan, Tuvaluan and Fijian. These centres range from informal playgroups meeting once or twice a week to licensed and chartered centres. The programmes focus on language development, both the Pacific Island language as well as English, and improved parental knowledge in early childhood care and education. Additional expenditure of \$3 million over 3 years, announced in October 1995, to

increase the number of licensed early childcare centres servicing the Pacific Island population is the chief initiative specifically aimed at this group. This initiative is designed to improve the quality of child care since at 1 July 1994 only 9% of the 201 Pacific Island childcare centres were licensed. Parent support in early childhood education and care is also the focus of the Anau Ako Pasifika Programme. This is a home-based project run by the Early Childhood Development Unit, the government agency which supports the education of 0-5 year old children. The programme has operated for the last six years in Auckland, Wellington and Tokoroa and has been funded at \$400,000 per annum by the Bernard Van Leer Foundation, an international philanthropic organisation. From 1 July 1996, the Government takes over funding for the programme.

Raising achievement levels of school students is the aim of the new Pacific Islands School-Parent-Community Liason programme based in Auckland, Wellington and Tokoroa. \$740,000 over a three year period will be outlaid for this programme. Additionally, the two pilot programmes which also target increased student achievement - *Project Achievement* and the Collaborative Learning Programme will be evaluated. Project Achievement, running in selected secondary schools, is designed to increase the numbers of successful Pacific Island Group school leavers taking up further education, training and career options that they wish to pursue. It aims to also promote a strengthened commitment among parents and leaders to education as the key to success.

In recognition of the unique educational needs and lower levels of achievement at the senior secondary level, of the growing Pacific Islands population, a formal education plan is being developed by the Ministry of Education. The Pacific Island Education Plan is named: *Ko e Ako 'a e Kakai Pasifika*, which means:

‘education is the key to unlocking the potential of the Pacific Island community to pursue its own self-betterment’.

A number of areas are being examined for policy development in consultation with community representatives. These areas include early childhood education and bilingual education, students at risk of educational failure, community languages policy and Pacific Islands curriculum statements, participation in post compulsory education and training, resourcing, increasing Pacific Islands representation on school boards of trustees and improving support for parents and caregivers.

Even among Pacific Island people with post-school qualifications, the unemployment rate is more than double that of the total labour force (Krishnan, Schoeffel and Warren 1994). This suggests that the Pacific Island Education Plan should pay close attention to ways of making the school curriculum as well as post-school training more suited to the needs of Pacific Island people. The portability of qualifications obtained in the Islands also deserves attention.

Another initiative to close the ethnic education gap is the *Skill Enhancement*²¹ programme which provides vocational education and training linked to the National Qualifications Framework for young Maori and Pacific Islanders between the ages of 16 and 21. Provision is in both institutional and work-based environments and usually contains an element of on-the-job training. The trainee outcomes aimed at are the achievement of qualifications linked to the National Qualifications Framework (where available) and the movement into employment or further training. The programme continues to be modified in line with current vocational and training needs of the target groups.

5.4.2 A Widening Gap?: Comment

It is of concern that the number of Maori and Pacific Islanders leaving school without formal qualifications has increased over the last two years. Of the 53,819 full-time students who left school in 1995, 18.1%

²¹ This is the parallel of Skill Pathways which is a transition measure for integrating industry training with the education system. A goal of Skills Pathways is to mitigate educational and labour market disadvantage through improved access and provision of qualifications based job training and career education for women, Maori and Pacific Islands people

left without a formal qualification. This was a 1.8% increase over the previous year. 35.4% of these students were Maori and 24.3% were Pacific Island. These proportions are a 0.8% and 0.6% increase on the 1994 figures, for Maori and Pacific Islanders respectively. Of importance is also the regional disparities evident in these figures. Provincial areas of the North Island had the highest proportion of school leavers without qualifications. 25% of students in Northland, 21% in the Bay of Plenty, Gisborne and Hawke's Bay and 19% in Manawatu-Wanganui; compared to 18% in Auckland, left without a qualification (*Education Review* 10 July, 1996). In the light of this evidence it is therefore particularly important to follow the relevant recommendation for New Zealand of the OECD Jobs Strategy:

Monitor closely the various initiatives aimed at raising Maori and Pacific Islanders participation and attainment in education and pursue vigorously those policies which show the most promise (OECD 1996b: 62).

A close eye should also be kept on new programmes such as Tu Tangata which is designed to bring the Maori community into the school, and has been a success in Parkway College in Wainuimata (Matheson 1996). Furthermore, suggestions for improving the quality of education provided in schools with a predominance of Maori and Pacific Islanders in the South Auckland area which were included in the recent Education Review Office report (Education Review Office 1996) should be given urgent consideration. It now appears vital that introduction of incentives both for attracting quality teachers into such schools, as well as for the exit of less competent teachers, as recommended in this report, is pressing. It is not, however, only the quality of teaching and school management that affects performance of pupils and schools. Health, nutrition, housing and home environment, neighbourhood conditions and state of the local economy all impinge on the ability of students and schools to produce quality educational outcomes.

In a study examining the interaction of local economic performance and the vocational education and training system in Britain, a cumulative causation process is identified. It is argued that the outputs from the

locality's educational and training system determine and in turn are determined by the area's stock of high skill workers.

Economic, social and educational deprivation are self-perpetuating and requires government intervention on a substantial scale, if the process is to be reversed (Bradley and Taylor 1996: 13).

Substantially more resources to raise the quality of the local educational and vocational systems and more vigorous policies to encourage indigenous employment growth, preferably in high-skill content industries, are among the interventions advocated in order to reverse the forces of cumulative causation in economically disadvantaged localities. These conclusions appear highly relevant to the New Zealand context as well.

5.4.3 Working Within the Human Capital Constraint

Increases in formally recognised education and skills will undoubtedly increase the employment possibilities for ethnic minorities. This argument, however, fails to recognise the multi-faceted nature of human capital and the need for a broader approach to employment creation. Immediate, shorter term strategies for reducing ethnic unemployment working initially within the existing constraints of this lack of human capital are necessary. Extensions to the conventionally defined concept of human capital as well as the improvements in human capital which will result as a corollary of community employment schemes must also be taken into account. The concept of human capital should be given a broader interpretation so that the cultural and ethnicity based potential and talents of people (Maori and Pacific Islands population in New Zealand), could be utilised to mitigate the impact of their lower levels of educational qualifications.

Conventionally defined human capital chiefly comprises education and training and formal qualifications. It is proposed here, however that this definition should be widened to include cultural capital.

The term cultural capital signifies particular kinds of knowledge and social styles, talent and abilities and is used here in the Bourdieuan sense. According to Bourdieu (1986) cultural capital comes in three states. In one of these, the embodied state, cultural capital can be understood as ability, talent, style or even speech patterns: the embodiment of characteristics that in general are acquired over time and/or through the socialisation process and tend to be the marks that distinguish one group from another. The other two states are the objectified state which comprises cultural goods such as pictures, books, instruments etc. and the institutionalised state, for example when cultural capital becomes converted into educational qualifications. Although a form of objectification, the institutionalised state is quite a distinct category.

Bourdieu explains embodied cultural capital as external wealth converted into an integral part of the person in such a way that it appears natural and effortless. As he elaborates, cultural capital in the embodied state:

i.e. in the form of what is called culture, cultivation, *Bildung*, presupposes a process of embodiment, incorporation... (1986: 244).

Unlike economic capital however, it cannot be transferred instantaneously, or bought or sold. It is acquired, yet has the appearance of being innate and frequently goes unrecognised.

The embodied cultural capital of some individuals can be transformed and institutionalised into formal educational qualifications. This often depends on social class. Empirical work on the link between social class and the progression to further or higher education has shown that students from a working class background are less likely than middle class students to move into higher education and when they do are less likely to select programmes that lead them to the higher professions (see for example Lauder and Hughes 1990). In an interesting study Nash (1986) has shown how this relates to New Zealand. The study highlights that there is much research to be done on many aspects of educational inequality in New Zealand and concludes:

this examination of the theories of Bourdieu and Bourdon with respect to the primary and secondary effects of class and ethnic differences raises more questions for us in New Zealand than it answers (Nash 1986: 137).

Nevertheless, what might be inferred for the purposes of this thesis is that for the majority of Maori and Pacific Island Group people, the transformation of embodied cultural capital into formal education qualifications does not currently happen. As shown in table 5.5, there is a considerable gap in educational qualifications among ethnic groups in New Zealand. To the extent that employer selection among job applicants is influenced by their formal educational qualifications, those with lower qualifications (and lesser social capital²²) have a reduced probability of being selected from among a pool of job applicants, and in the absence of intervention through active labour market policies could remain unemployed (see sections 4.3.4: segment on employer discrimination, and 5.3.3).

A broadened definition of human capital to include embodied cultural capital, would serve three purposes. Firstly it would overcome the preconception that ethnic minorities are less employable because they are lacking in human capital. Secondly, innovative community initiatives can recognise and utilise this dimension of human capital to provide employment for ethnic minorities. Thirdly, it provides a theoretical underpinning for practical programmes to create jobs at the community level. In chapter 7 of this thesis, community job creation on the basis of this widened definition of human capital is considered. It recognises the possibilities for embodied cultural capital to be harnessed and transformed to create employment for labour market disadvantaged groups. This is shown to be the case especially in the tourism industry.

²² Social capital comprises the social connections that people have. This helps in the securing of a job. Many jobs are not advertised and knowledge about the existence of the vacancy could be disseminated through social contacts. School connections (the 'old boys'/girls' network and the 'old school tie' effect (where the applicant belongs to the same prestigious school as the employer) could work in the favour of some applicants. See Bourdieu 1986: 248-252 for an excellent discussion on social capital and the reproduction of social capital.

5.5 Chapter Conclusion

Deficiencies in the skills of the New Zealand's workforce need to be mitigated in order to ensure high levels of employment in the new technological era. Recent education policy has focused on moves to build New Zealand's education system to be better able to meet the human capital requirements of the twenty-first century. Policy changes cannot however, be divorced from their economic, ideological and global context.

Education and training attainment play an important part in an individual's employment prospects and labour market outcomes. Closing the ethnic education gap is vital for improving the employment prospects of Maori and Pacific Island Group people. Yet, secondary school retention rates for these groups were shown to be consistently lower than for other groups. Furthermore since studies have consistently indicated that the demand for higher education is price elastic for low income groups and is closely linked to socio-economic background, (Maani 1995b), participation of Maori and Pacific Islanders in tertiary education is likely to remain low in the light of the current trends for increasing commercialisation of this level of education. The wide divergence in the quality of schools and particularly the poor quality of schools where these ethnic minorities are in the majority of pupils, is also socially unacceptable. It does appear, therefore, that New Zealand's well-being enabling state so far is deficient in its role in these aspects and a sustained effort is needed to mitigate these deficiencies. It is, however, yet too early to assess the success of the separate initiatives that have been implemented in order to enhance the human capital of these people. Nevertheless, for an individual, several intertwining threads go to make up the fabric of educational achievement. Governmental action and policy changes in other areas are necessary if the acquisition of human capital is to take place and private provision of welfare enabled.

There are no easy solutions to education problems. As Schumacher points out:

The problems of education are merely the deepest problem of our age. They cannot be solved by organisation, administration or the expenditure of money, even though the importance of all these are not denied (1973: 83).

Broadening the definition of human capital to recognise cultural capital could however, be an useful short-term solution to overcoming some educational deficiencies particularly among Maori and Pacific Islands Group people.

PART III

EMPLOYMENT CREATION

Entrepreneurship: The Catalyst of Employment Creation

6.1 Chapter Introduction

This chapter is the first of two in part III of the thesis titled ‘Employment Creation’. The division of the thesis into a separate part on employment creation is to highlight how crucial employment creation is to the actual ability of individuals to provide for their own well-being. In terms of the simple model of family welfare presented in section 1.2.3 of the Introduction of this thesis, the substitution of self provision for state provision of welfare as well as an increase in family welfare can occur chiefly through participation in market employment. Yet without sufficient job opportunities which match the capabilities of individuals seeking market employment, w_m (see section 1.2.3) in the welfare mix cannot effectively increase, and the level of family welfare is constrained. Given the importance of employment creation in the process of the market sourcing of welfare, this chapter serves to emphasise the vital role of entrepreneurship in employment creation.

The chapter begins with a discussion to point out the importance of entrepreneurship in the transition to a new phase of capitalist development. The macroeconomic and other national level conditions necessary for the development of entrepreneurship, however, remain outside the scope of this study. Similarly, although entrepreneurship is also a component of human capital and the importance of this facet of human capital in a changing economy as emphasised in Schultz (1990) is

acknowledged here, it is an aspect not dealt with in any detail in this thesis. Instead this chapter focuses on an examination of more micro level responses to the stimulation of entrepreneurship. Thus schemes which support unemployed persons start their own enterprises and work as self-employed and other initiatives to encourage ethnic minorities into self employment are discussed.

The need to create a climate for innovation and entrepreneurship at the local community level is an important aspect of employment creation. While this need has been recognised by the OECD in its Local Initiatives for Employment (ILE) programme (OECD 1990: 61, 74-75), efforts to stimulate entrepreneurship have remained focused on building and strengthening the entrepreneurial capacity of the individual. In some labour market disadvantaged communities, however, where individuals initially lack the skills and other prerequisites for successfully pursuing new ventures, even with such enabling mechanisms such as business assistance centres and financing programmes for new small ventures, the expectation that entrepreneurship would be stimulated in the short term to create jobs may be unrealistic. This expectation also often ignores the importance of effective demand in sustaining businesses in such communities. In order to overcome such obvious difficulties to the creation entrepreneurial responses in these communities therefore, an original conception of entrepreneurship is developed, with an elaboration of *community entrepreneurship* in section 6.3. This also provides the theoretical underpinning for the analysis of community employment creation in the case study presented in the following chapter.

Finally it may be pointed out that this chapter serves an important indirect purpose. Spanning as it does both the global level of the analysis in its discussion of the role of entrepreneurship in propelling growth, especially in the transition phase of a new era of capitalist development (section 6.2.1), and specifically the local level in section 6.3, it shows that the levels of analysis in this thesis are inextricably linked. While the discussion of the thesis may appear compartmentalised (in figures 1.1, 2.1, 3.1, 4.1, 5.1 and 7.1 which show the multi-level analysis of the thesis and each of the separate foci of the analysis), there are inter-connections

and dependencies between the levels. The range of discussion in this chapter clearly shows this.

6.2 The Supply of Entrepreneurship

The supply of entrepreneurship is a vital element in the process of employment creation. There is almost universal recognition today that entrepreneurial spirit and activity is vital for a market oriented, globally competitive economy and as Kirzner warns:

For the successful allocative functioning of the market, and for the stimulation of dynamic growth, the entrepreneur must not be taken for granted (Kirzner 1984: 57)

Leibenstein distinguishes between two broad types of entrepreneurship, namely routine entrepreneurship and Schumpeterian or 'new type' or N-entrepreneurship. Routine entrepreneurship involves the activities of:

coordinating and carrying on a well-established going concern in which all the parts of the production function in use (and likely alternatives in current use) are well known and which operates in established and clearly defined markets. N-entrepreneurship by contrast, involves the activities necessary to create or carry on an enterprise where not all the markets are well established or clearly defined and/or in which the relevant parts of the production function are not completely known (Leibenstein 1968: 73).

This thesis assumes that both types of entrepreneurship are prerequisites for aggregate economic growth though it is argued that at the local level N-entrepreneurship is far more important. This is especially so in the case where in order to create jobs in labour market disadvantaged communities, new products and activities that build on existing resources, such as cultural and ethnic riches of the community may have to be developed.

6.2.1 Extending the neo-Schumpeterian Approach

Although the neo-Schumpeterian explanation of the current transition to a new phase of capitalist development (see Section 2.2.2) emphasises Schumpeterian ideas on innovation and technological advances as the driver of upswings, it does little to elaborate on the importance of the entrepreneur and entrepreneurship as the catalyst in this process. This section attempts to rectify this shortcoming.

Under the Schumpeterian schema of capitalist development, the entrepreneur is the key agent of change. Schumpeter's conceptualisation of the entrepreneur and his function is:

the doing of new things or the doing of things that are already being done in a new way (innovation) (1991a: 412).

The 'inventor' is distinguished from the entrepreneur in that:

the inventor produces ideas, the entrepreneur "gets things done". ... Entrepreneurship is the motive power or creator of economic progress (1991a: 413, 409).

In a little known paper, *Comments on a Plan for the Study of Entrepreneurship*, thought to be written in 1946, Schumpeter identifies 'creative response' in business activity with entrepreneurship. When the economy or a sector of the economy or some firms in an industry, adapts to change by an expansion or contraction 'within its existing practice', this is an 'adaptive response'. By contrast, if the reaction is 'outside the range of existing practice', it is a creative response. Clarifying further, Schumpeter explains that creative responses 'dominate only what the economist loves to call "transitions"', and is 'an essential element in the historical process' (1991a: 412).

The entrepreneurial performance involves, on the one hand, the ability to perceive new opportunities that cannot be proved at the moment at which action has to be taken, and, on the other hand, willpower adequate to breaking down the resistance that the social environment offers to change (1991a: 417).

Schumpeter adds however, that

modern milieus *may* offer less resistance to new method and new goods than used to be the case' and personal intuition could be expected to give way to the teamwork of specialists (1991a: 417).

Distinguishing between interest and entrepreneurial profit, Schumpeter argued, in an essay written in 1918, that interest was the return from the ownership of assets whereas profit is created by entrepreneurial activity.

Entrepreneurial profit proper...arises in the capitalist economy wherever a new method of production, a new commercial combination, or a new form or organisation is successfully introduced. It is the premium which capitalism attaches to innovation (Schumpeter 1991:113).

Linking this in with his ideas on the capitalist state, which he refers to as "the tax state", he advocates leniency in the taxation of entrepreneurial profits because

if this profit were taxed away, that element of the economic process would be lacking which at present is by far the most important individual motive for work toward industrial progress (1991b: 114).

Interestingly, he forcefully points to (in 1918), the limits of the fiscal capacity of the state:

If the will of the people demands higher and higher public expenditures, if more and more means are used for purposes for which private individuals have not produced them, if more and more power stands behind this will, and if finally all parts of the people are gripped by entirely new ideas about private property and the forms of life - the tax state would have run its course (1991b: 116).

This warning could be applicable in the more modern context of rising demands on the welfare state; though of course Schumpeter was taking it one step further and predicting the demise of capitalism itself.

As Schumpeter makes clear, it is the entrepreneur who perceives opportunity, namely the possibilities for making profit and is the catalyst in the utilisation of scientific discovery and invention toward this end.

Was not the observed performance (of technological progress) due to that stream of inventions that revolutionized the technique of production rather than the businessman's hunt for profits? The answer is in the negative. The carrying into effect of those technological novelties was the essence of that hunt. And even the inventing itself, as will be more fully explained in a moment, was a function of the capitalist process which is responsible for the mental habits that will produce inventions. It is quite wrong ...to say, as so many economists do, that capitalist enterprise was one, and technological progress a second distinct factor in the observed development of output; they were essentially one and the same thing or, as we may also put it, the former was the propelling force of the latter (1942: 110).

Almost a quarter of a century later, Schmookler in an empirical study of close to a thousand inventions across four quite different industries, confirmed that expected profitability was the stimulus for industrial innovation:

Despite the popularity of the idea that scientific discoveries and major inventions typically provide the stimulus for inventions, the historical record of important inventions in petroleum refining, paper making, railroading and farming revealed not a single, unambiguous instance in which either discoveries or inventions played the role hypothesized. Instead, in hundreds of cases, the stimulus was the recognition of a costly problem to be solved or a potentially profitable opportunity to be seized; in short, a technical problem or opportunity evaluated in economic terms (1966: 199).

Without entrepreneurship, therefore, profit making potential will not be exploited and scientific inventions and other discoveries will not be harnessed to create employment opportunities. Leibenstein too, pointing out important elements in the development process, argues that, part of the process,

is the interaction between the creation of economic capacity and the related creation of demand ... The entrepreneur as a gap-filler and input-completer is probably the prime mover of the capacity creation part of these elements of the growth process (1968: 73).

Thus while new information and communications technologies may be the prime cause of the movement to a new era in capitalist development, entrepreneurship becomes vital if economies and communities are to operate successfully in this era.

6.2.2 Maori Ownership of Assets

The limitation of capital and access to capital is often a barrier to overcome for entrepreneurs and enterprises, especially in the start-up phases of businesses (Sit et al. 1991). The ownership of capital and land assets reduces or eliminates this barrier. Moreover, efforts to put these assets to productive use, will be a stimulus to the development of entrepreneurship.

In New Zealand, as Maori increasingly acquire greater control of assets especially with Treaty of Waitangi Settlements,¹ the supply of entrepreneurship in Maoridom will increase. Maori employment in the future will be influenced by progress made by Maori owned and operated enterprises.

Although the majority of Maori will continue to work in mainstream enterprises and institutions, Maori undertakings are acknowledged as being an important element within the overall pattern. Ownership of enterprises gives Maori an opportunity to shape future job opportunities (i.e. on the demand side), rather than just respond to them (i.e. purely on

¹ The Treaty of Waitangi between the 'natives' or the indigenous people of New Zealand or Maori and the British Crown, was signed on 6 February 1840. The purpose of the Treaty was to cede sovereignty to the Queen of England. The official English version of the Treaty and the Maori translation do not match, nor was the Treaty signed by all the Maori chiefs. The Treaty has been the cause of Maori grievances and claims on the Crown (see for example Walker 1990 for a full discussion). The majority of claims are related to land and some of them to natural resources. The Treaty of Waitangi Act 1975, provided for any Maori or Maori Group to lodge a claim with the Waitangi Tribunal to seek settlement from the Government. Generally the settlement of long standing grievances under the Act has been a long drawn-out process. The *Crown Proposals for Settlement of Treaty of Waitangi Claims* (see Department of Justice 1994), which laid down a framework for negotiating claims were approved by Cabinet in late 1994. This came to be known as the 'fiscal envelope' and the chief Maori objection to the envelope was the 'cap' or limit of \$1 billion for settlement of all claims over a period of 10 years. Since then, claims are being progressively settled.

the supply side). Policy initiatives which succeed in developing Maori assets and enterprises thus have an important part to play in increasing the range of work opportunities for Maori (Andrews and Rose 1995:24).

Illustrative of the potential employment gains from the development of Maori entrepreneurship through asset ownership are the initiatives being taken to promote Maori export initiatives. Today substantial assets in the seafood, horticulture, agriculture and forestry export sectors of the economy are owned by Maori incorporations and trusts, with Maori business also diversifying into other sectors (Te Puni Kokiri 1996: 10). Government agencies such as Tradenz² are committed to support the Maori business export thrust. In 1993, a Maori Enterprise Team was formed in Tradenz to provide practical support to Maori businesses who wished to tap into and develop international markets. A nation-wide series of 'Maori Exporter' workshops were conducted in 1995, leading to over 350 Maori owned and operated businesses on the Tradenz client base. A Maori Exporters' Council has been formed jointly with Tradenz and Maori incorporations and trusts and some sole traders, to develop co-operative export activities. Further steps such as the Maori International Business Conference, hosted by Tradenz and the Ministry of Maori Development, continue to be taken to support Maori enterprises build successful export ventures.

An instance of successful Maori entrepreneurship is also illustrated by the activities of the Ngai Tahu Maori Trust which is actively involved in the fishing and tourism industries and property transactions in the South Island. Its best known tourism venture is the Kaikoura whale watch business which has been responsible for the economic regeneration of the Kaikoura region. Another new tourism venture launched by the Trust is a \$1million eco-tourism project in Queenstown. The project intends

² The Trade Development Board (Tradenz) is part of the Government's Enterprise Assistance Package and is an organisation to assist in increasing New Zealand's foreign exchange earnings by enhancing the capability of businesses to undertake profitable exporting.

operation of a tourism boat by Ngai Tahu guides and includes visits to the Greenstone Valley utilising 3 sheep stations, currently set aside by the Crown for Treaty settlements, as a base (*National Business Review*, 15 December 1995). It should be noted, however, that the Ngai Tahu Trust is a well resourced organisation with considerable management skills and able leadership. Several other Maori Trusts, runanga and communities, despite ownership of resources and rights may have less ability to manage these to optimise benefit to all stakeholders (this is touched on further in section 7.2.1). The choice of organisational form may also limit benefits. This too is discussed further in the following chapter in the case study context (see section 7.3.4).

6.2.3 Business Immigrants and Foreign Direct Investment

Immigration can expand a country's supply of entrepreneurs. Two facts emerging from the economics of migration is that first generation migrants have a greater likelihood of being self-employed³ than similarly skilled non-migrant members of the population and that migrants on an average save more than non-migrants. Self-selection of economic migrants and asymmetric information in labour markets combined with risk averse employers, tends to 'push' more migrant workers into self-employment. This is a rational outcome since the differential between actual paid work and the risk premium on self-employment is higher for migrant workers (Cremer 1993, Stark 1991). Given the predisposition of migrants to self-employment and their higher saving propensity therefore, Asian immigration in particular, could result in positive benefits to New Zealand such as the creation of employment opportunities through the establishment of small enterprises and additional venture capital (Cremer 1993).

³ The self employed are regarded here as entrepreneurs. Entrepreneurial activity thus includes activity which is not innovative in the Schumpeterian sense, where innovation is defined as the introduction of discontinuous changes in the production function and the entrepreneur is the person who introduces innovations (Schumpeter 1961). For a comprehensive analysis of individual entrepreneurship in the New Zealand context, see (Harper 1994).

There has been official recognition that New Zealand's existing pool of entrepreneurial talents could be increased through immigration. A category of Entrepreneur Immigration was instituted in 1977, to encourage applicants with proven entrepreneurial ability to migrate to New Zealand. 225 immigrants came in with \$106 million in new investment under the scheme. In 1986, this was changed to the Business Immigration Policy⁴ under which applicants were required to have \$200,000 and the necessary capital to underwrite their business in New Zealand. The scheme, aimed chiefly at Chinese entrepreneurs from Hong Kong, Taiwan, and South-East Asia was moderately successful with 553 applicants, 66% of whom were Asian, in the first two years of operation (Hoadley 1989: 113). Chamber of Commerce figures show some significant investments being made by Chinese immigrants who during 1988 and 1989, brought \$800 million into New Zealand, established over 200 businesses, created 700 jobs and paid \$13.4 million in wages (cited in Kelsey 1993: 308).

The contribution of recent Asian immigrants to increasing the supply of entrepreneurship is illustrated by the success of Contec Data Systems Ltd. Singaporean James L S Koh immigrated to New Zealand and bought a controlling shareholding in the company in 1991. Within two years, the company went from one with no overseas links to become a major player in the software industry and a company with a global vision. Today the company produces software known as MADCAP which is the industry standard for the dairy industry in New Zealand and is widely used by dairy product manufacturers here and overseas. Another Contec product is Catalist and its offshoot Image II which are leading software for libraries (Cremer and Ramasamy 1996: 69-72). Contec is an interesting

⁴ In August 1986 a White Paper: Review of Immigration Policy, provided the basis for the 1987 Immigration Act and recast the traditional British and white orientation of New Zealand's immigration policy toward a more internationalist and non-discriminatory one. This led to a change in the pattern of immigration and a rise in share of Asian immigrants from 20% of the total in 1986 to 31% in 1989. In November 1989, the requirement that immigrants should have a job before being approved to settle in New Zealand was changed to admission on the basis of a points system weighted heavily towards educational qualifications and required skills. This change favoured Asian immigrants in contrast to Pacific Islanders. The rate of net migration from Asia about doubled from the March years 1991 to 1995 (McKinnon 1996: 45-47, 54-55). Asian immigrants therefore may qualify under the General category in addition to the Business Investment category.

example of a successful company which utilises the entrepreneurial talents of a new migrant to New Zealand, to create employment in keeping with the synergy of the new information and communications technology era.

In November 1991, a new Business Investment category for migrants was introduced. This migrant category is designed to select business migrants who will:

- increase New Zealand's levels of human capital, enterprise and innovation;
- foster international linkages (communication from Roger Maxwell, Minister of Immigration, August 1996).

Current compulsory requirements for applicants for this category include the transfer to New Zealand of a minimum of \$750,000 'accumulated earnings funds', at least two years business experience and English language skills. Tightening of investor residency rules in October 1995, especially the English language requirement together with the favoured treatment of younger migrants, however, are chiefly responsible for a decline in immigration. The 'too hard' English language test which the principal migrant is required to pass prior to approval and the 'punitive "bond", virtually a \$20,000 fine', for each dependent that fails to pass, deters migrants (Cremer 1996). Only 11 people applied in the business investor category in the 5 months to the end of May 1996, compared to 330 for the same period in the previous year (*New Zealand Herald*, 22 June 1996). In the Summer of 1996, only 3 applications were received under this category (Cremer 1996). The English language requirement also applies to migrants who enter under the general category. Migrants from Asian countries where English competencies are less widespread than Britain, continental Europe, South Africa, the Indian subcontinent and Sri Lanka, are likely to be more affected by the language requirement.

If immigration is to increase entrepreneurship in New Zealand, therefore, it would appear that the current immigration requirements need to be reviewed. New Zealand's requirements are more stringent than that of some other Western developed nations, for instance Canada. Since the

prior English language requirement for principal migrants to New Zealand is a stumbling block for many potential Asian business migrants⁵ to New Zealand, this condition should be re-considered.

Increased inward foreign direct investment (FDI) can provide an useful supplement to domestic entrepreneurship. In this new era of heightened globalisation, flows of FDI have increased at a spectacular and rapid rate and overtaken trade as the key force driving the pace and direction of world economic development (Cremer and Ramasamy 1996: 3-4). With around 600,000 or one third of all jobs in New Zealand, directly or indirectly linked to foreign owned firms (Cremer and Ramasamy 1996: 109), the important role of FDI in the job creation process is worth drawing attention to. Currently public policy is conducive to inward FDI. New Zealand is positioned to compete for FDI flows not on the basis of cheap labour or an array of incentives, but by providing 'one of the most stable and liberal climates for FDI in the Asia-Pacific region' (Cremer and Ramasamy 1996: 94).

6.3 Community Entrepreneurship

6.3.1 The Concept

Community entrepreneurship complements the role of individual entrepreneurs in stimulating change and creating employment. Community entrepreneurship envisages the community supplying initiative and enterprise for the creation, transformation and expansion of

⁵ This was also shown in research conducted in the run-up to preparation of a proposal for immigration concessions to support the Otago Economic Development Fund (OEDF), submitted to the Minister of Immigration in August 1996 (see section 7.4.5). Waiver of the prior English language ability requirement for investors in the OEDF was justified on the grounds that it has been a serious obstacle for otherwise suitable Business Investor migrants to overcome and a more suitable alternative would be the completion of a 'Language and Life in New Zealand' programme for migrants after entry into New Zealand. Such a programme it was argued would ensure that business migrants obtain the necessary language ability but will also aid their effective integration in New Zealand society. For example this course would include information on Treaty of Waitangi obligations and New Zealand's legal requirements for instance the Privacy Act. The programme could also be adapted to suit the needs of family members of the principal applicant.

employment creating ventures and is seen as a possible answer to both an initial lack of individual entrepreneurial skills and employment opportunities in labour market disadvantaged communities and for ethnic minority groups (de Bruin and Dupuis 1995a, 1995b). It entails innovative community efforts as a catalyst for the growth of local employment opportunities for labour market disadvantaged ethnic minorities.

Community entrepreneurship often involves partnership between local community groups, local and central government agencies, private development companies, existing local businesses and other 'honest brokers',⁶ to take a proactive role to stimulate economic activity within a community. As private firms increasingly recognise that a community conscience and social responsibilities complement other commercial goals, business support for local initiatives will rise. This trend augurs well for the strengthening of partnership aspects of community entrepreneurship.

Using the terminology of development economist Hirschman (1984), community entrepreneurship would release 'social energy' to provide bottom-up development. It could build upon cultural strengths and ethnic identity. 'Cultural energy'⁷ (Kleymeyer 1994a and 1994b) would thus supplement social energy. Collective mobilisation of resources and the active exploration of ways to involve local populations in ownership and control of their own economic destiny would be a key element of community entrepreneurship.

Community entrepreneurship can open new horizons through *market-leading* activity. Market-leading is described as a deliberately staged

⁶ Other honest brokers could include for example University academics and others who would play an active advisory role and/or act as the Gramscian 'organic intellectual' as described in section 7.4.2.

⁷ 'Cultural expression, in all its richness and variety, is a major means of generating and focusing a vital social force that can be called *cultural energy*. This force is a prime source of motivation that inspires people to confront problems, identify solutions, and participate in carrying them out' (Kleymeyer 1994a: 4). Social energy is a renewable motivation which induces participation in a group movement or cooperative activities, which occurs despite or on account of hardship, disadvantage and even in the face of failure (Hirschman 1984: 42-57, provides a discussion).

affair, unlike *market-following*. The growth of the economy stimulates a market-following supply response from enterprises in order to satisfy new or additional demand. The relative price of labour and the elasticity of substitution between labour and capital will contribute to determining whether additional demand for labour will accompany this response and result in employment growth. By contrast, market-leading manages change to create demand and employment growth which would not otherwise have occurred. Market-leading may be likened to the Schumpeterian 'creative response' while market-following is more in line with an 'adaptive response' (see Section 6.2.1). Similarly market leading community entrepreneurship is akin to Leibenstein's N-entrepreneurship (see Section 6.2), since it engages in the creation and operation of ventures where the production function is not completely known.

Market-leading in the context of this study has a community-base bias. Community co-operation and innovative exploitation of the community's social, cultural and other resources, nurtures and expands a market for the goods and services produced at the local level. An integrated programme of regeneration and development, harnessing cultural and ethnic riches to create an attractive domestic and international visitor destination, as examined in Section 7.4, is an example of market-leading.

A function of community entrepreneurship is to enable the acquisition of human capital. It can also release latent human capital, which would especially involve the broader definition of human capital encompassing elements of cultural capital (see Section 5.4.3). It should be understood here, that latent human capital remains unrecognised and overlooked until harnessed. Once harnessed, however, it fits in with Becker's concept of specific training in that it is cultural, locational and situation specific, and becomes embodied and increases marginal productivity (Becker 1964).

Community entrepreneurship also invests cultural capital. The term cultural capital signifies particular kinds of knowledge and social styles (Codd, Harker and Nash 1985: 12) and follows the Bourdieu (1986) concept here. The meaning of cultural capital is also only partly captured

by the term human capital (see Section 5.4.3). Embodied cultural capital can be tapped into and converted into economic capital through innovative community initiatives.

The concept of community entrepreneurship fits well with traditional Maori focus on holism and communalism in which the welfare of every member of the whanau (extended family) is important to the well-being of the whole. Kupenga (1990) maintains that traditional attitudes are reflected in the hesitancy seen in many present day Maori to accumulate wealth. They do not want to be seen as *hakere* which can be translated as greedy, selfish and individualistic. Similar concepts are embodied in the terms *whakaiti* and *whakahihi* which Metge (1986) draws attention to. *Whakaiti* denotes 'a praiseworthy preference for fellowship over individual eminence'. *Whakahihi*, on the other hand is extremely distasteful to Maori and means arrogance and boastfulness (Metge, 1986: 86). These concepts underpin Maori group behaviour and are consistent with community entrepreneurship.

6.3.2 Community Entrepreneurship in Action

There have been recent examples of community entrepreneurship in action. The importance of partnership aspects of community entrepreneurship may be illustrated by three projects that come under the umbrella of Te Rawhiti 3B2 Trust, a Maori Trust which owns 80% of the shares in 3,000 acres of land in a remote area in the Bay of Islands in Northland. These projects are crucial to an area plagued by unemployment. With a jobless (this is a wider definition of unemployment which measures 'those without a job and wanting a job') rate of 13.3%, Northland has the highest rate of regional unemployment in New Zealand (Jobs Research Trust 1995b). Among Maori located around the town of Rawhiti itself, the unemployment rate is extremely high. Reverse migration of unemployed Maori from the cities over the last few years has exacerbated unemployment in the area. One of the Trust's projects will maintain and extend the Cape Brett Walkway. This project has been undertaken in co-operation with the Department of Conservation, with support from the Government's Task Force Green

Programme (see Appendix 1), and Tourism 2000. A second project is the construction of a solar-powered, opossum proof electric fence across the foot of Cape Brett Peninsula. This opossum control measure will enable the pohutukawa tree (a flamboyant, red flowering tree which is known as the New Zealand Christmas tree since it flowers around Christmas time), to flourish once more in the Northland area. In the summer of 1994, Department of Conservation officers reported the first flowering of pohutukawas on the Cape after more than six years. The fence project expands the partnership concept to include the Northland Regional Council, commercial sponsors of 'Project Crimson' and people in the area with other than iwi (tribal) connections. Local private landowners, including the patron of the project Dame Kiri Te Kanawa, are also involved. These projects not only provide employment but also play a part in ensuring the protection of the Northland environment and enhancing the tourism potential of the area.

The third project is the joint venture between Fullers Northland, the largest tour operator in the area, and the Trust. This project will have a purpose built craft workshop where training in such traditional crafts of weaving and woodcarving will take place. It will employ more than 30 Rawhiti people which will go a long way to alleviating the unemployment experienced in the town. A retail outlet at Otehei Bay on Urupukapuka Island will sell these locally produced cultural objects. The Fullers Cruise Fleet brings around 600 people to the Island each day, thus making the operation viable and sustainable. The joint venture will allow the Maori to use the commercial and marketing skills of Fullers and Fullers can offer its customers, three quarters of whom come from overseas, a chance to experience Maori culture. Partnerships such as these also overcome the immediate shortage of management skills that could endanger project viability.

Effective leadership is inherent in community entrepreneurship. Leaders form an integral aspect of the entrepreneurship which develops and turns vision into the reality of viable, commercially sustainable ventures to provide jobs at the local level. Such leadership may come from 'outsiders' who are the 'honest brokers' or Gramscian organic intellectual (see

footnote 6 of this chapter), or be provided by the more educated, already successful professional who wants to give something 'back' to his/her community and drives a project to fruition, or from group leadership within the community for example some members of a runanga or trust or Enterprise Board. This leadership will provide the motivating force to harness and build on the existing resources as well as draw in additional resources to the community. The measure of the success of this leadership would be the extent of change that takes place within the community (see for example Heifetz 1994). Thus, underlying the success of the Rawhiti 3B2 Trust projects, has been the effective leadership of the project manager, Mr Steve Willoughby, who returned to his community, giving up a top job in London in a major international firm (Pullman 1995).

Since unemployment takes on specific regional and spatial dimensions, community employment creation is vital if inroads are to be made in tackling problems of localised unemployment. In this respect, therefore, the Northland projects are of added significance, given Northland's high rate of joblessness. Local employment creation projects are, however, not easy to get off the ground. Reconciling differences of opinion within the community is one difficulty to overcome. The Rawhiti 3B2 Trust for example, has lately been hit by internal dissension. A recent court decision led to new trustees being selected to run the trust.

"The young people were saying let's create an economic base to move us out of the welfare system... But when we started moving in that direction, everyone started jumping up and down saying we were compromising our toanga (treasure) by making money out of it". Hapu also began arguing over who could lay claim to guardianship of the Cape Brett Peninsula... Now the hapu realise they must work together to move their people towards self sufficiency (CEG 1996b: 4).

In similar vein to the to the Rawhiti 3B2 Trust-Fullers joint venture, other communities too are utilising creative potential, arts and cultural expression to tap into tourism to create investment, employment and training opportunities. The small country town of Katikati, is such an example. Faced with a dairy factory closure, decline in the kiwifruit industry and the threat of a highway by-pass, Katikati turned itself into

the '*mural centre of New Zealand*' and obtained a place on the tourist map (Artwork 1995).

Urban applications of community entrepreneurship further illustrate the potential of community entrepreneurship to provide immediate employment opportunities for ethnic minorities who lack formal educational qualifications. The case study of the South Auckland community of Otara examined in the following chapter, provides such an application.

6.4 Small Business and Self-Employment

6.4.1 The Recent New Zealand Context

In a country like New Zealand where 92% of companies employ less than 20 workers, small scale business entrepreneurs play a key role in the economy (Dixon and Pricer, 1987). The proportion of people in self employment has increased from 14% of the employed workforce⁸ in 1981, to 20% in 1991 (PMTF 1994b: 37). This rising trend in self employment, with one in five employed workers in New Zealand self-employed in 1991, further attests the importance of small business enterprise.⁹

Government policy, in recent decades has recognised the importance of small business promotion as a facet of employment policy. In the post 1984 period, however, self employment and small business creation has been given greater emphasis. This reflects the general shift in economic policy toward enhancing the competitiveness of the economy and the new ethos that places high value on individual effort and economic independence. It is also viewed as important to the development of an 'enterprise culture' and the encouragement of local and regional initiatives (Department of Internal Affairs 1991: 47). Moreover, small businesses, being relatively cheap to foster, complemented the general

⁸ The employed workforce comprises people who work more than 20 hours on the basis of Census data.

⁹ The self-employed are regarded as entrepreneurs. See footnote 3 of this chapter.

thrust of government cost cutting, while affording a large potential for job creation.

A firm policy direction of support for enterprise development on a regional and local basis and recognition of small business development, is discernible with the introduction of small business development initiatives in the late 1980s and early in 1990. These included firstly, support for small firms under the Competitive Business and Employment Growth Programme. This involved the establishment of a national network of Business Development Centres under the auspices of the Ministry of Commerce. Secondly, community-based employment initiatives were supported chiefly through institution of the Local Employment and Enterprise Development Scheme (LEEDS) programme and the setting up of the Community Employment Development Unit, both under the Department of Labour. Under the LEEDS programme, grants were distributed to support the establishment of a network of regional enterprise/employment resource centres or agencies or small business enterprise centres which are community-based organisations promoting local employment and economic development initiatives. The plan was to establish 45 centres by the end of 1990 and 60 by 1991. There are now 65 centres operating throughout the country.

The role of the Community Employment Development Unit was to provide strategic guidance for the development of community-based economic initiatives and also dispense grants for 'trailblazer' community ventures which would be models to be emulated by other groups. In late 1991, several schemes, provided by a variety of government agencies, were reorganised and the Community Employment Group (CEG) replaced the Community Employment Development Unit at the beginning of 1992. The Community Employment Group continues support of the Local Employment and Enterprise Development Scheme programme under which it purchases specific employment and enterprise related services from local organisations for up to 12 months. (The new priorities of the Community Employment Group, put in place in October 1996, are set out in Section 7.2.2 of the following chapter).

A national organisation of small business enterprise centres (SBECNZ) was set up at the Conference of Employment and Enterprise Centres held in August 1992. Governance of the SBECNZ is through an annually elected Management Committee of representatives from the 5 Community Employment Group regions. SBECNZ is involved with networking, effective co-operation, training, publication of the *Small Business* magazine, national marketing to improve the image and awareness of small business enterprise centres, group buying, quality management and corporate sponsorship (Weller 1996). The small business enterprise centres are chiefly involved with running the Be Your Own Boss, Business Grow (see Appendix 1 for details), and the Mature Employment programmes. Other programmes such as the Wise Women Network which brings business women together to network and assist each other, now functions autonomously with a national co-ordinator, but was initiated by, a small business enterprise centre. The centres work with other agencies, groups and organisations in the community to provide a range of services which include assistance with the establishment of new businesses and the expansion of existing small businesses, developing projects to retain local employment levels or create new employment opportunities and advisory services and training for those seeking self employment. The centres today function through a cocktail of funding and support from the Community Employment Group, local government authorities, other government agencies, voluntary community input and trading activities.

In addition to advisory services, assistance and training obtained chiefly through the small business enterprise centres, financial support for job seekers moving into self employment is provided by the Enterprise Allowance administered by the New Zealand Employment Service(see Appendix 1).

6.4.2 Small Business and Self-Employment Programmes

Since the late 1970s, self employment programmes which assist the unemployed set up their own businesses, have been introduced in several industrial countries as unemployment began to rise. A recent survey of

these programmes in nine OECD countries and two transition economies, showed that such programmes can be potentially a cost effective tool in job creation. They, however, attract only a small percentage of eligible unemployed (low participation rate with better educated males in their 30s making up the majority of participants) and are difficult to evaluate because of the deadweight effect, as some of the new businesses would have been set up even without the programme. The survey indicated that in the OECD countries, approximately 50% of the assisted businesses failed during the first year. Of relevance, however, is the relative failure rate i.e. how this failure rate compares with that of businesses set up by entrepreneurs that do not receive such assistance. In France, Denmark and the Netherlands, the failure rate of programme participants was lower than non-participants. Nevertheless, even if assisted businesses do fail, programme participants were shown to find it easier to obtain wage and salary employment than non-participants (Adams and Wilson 1995). Today in the industrial countries, self employment programmes are a necessary inclusion in:

a menu of labor market policies designed to meet the diverse needs of the unemployed for productive employment (Adams and Wilson 1995:19).

The high rate of business failure must be introduced as a caveat when assessing the effectiveness of small business promotion as a policy strategy. Several overseas studies have drawn attention to business failure rates (for a summary see Pinfeld 1996: 2-3). New Zealand studies too have honed in on business failure rates in relation to enterprise development employment policy. Devlin (1984) highlights that reducing the number of small business failures (which he places at approximately 60% of new start-ups within the first four years) and assisting those small businesses with a desire to grow would have the same impact as encouraging small business start-ups. The policy implication of this observation merits emphasis: it is just as important to implement measures to assist in reducing the large number of small business failure as it is to have measures to encourage small business start-ups. The tendency is for the latter to take precedence over the former. Following Devlin, therefore, the recommendation is that further measures to assist in reducing the

large number of small business closures - including effective educational and advisory services need to be put in place.¹⁰ Advice on technical factors and marketing strategies will also be key contributors to business survival.

A recent study on the survival rates of new ventures (Pinfold 1996) uses the high failure rate (only 39.2% of stand alone start up ventures survived their first 6 years in business, in the years 1988-1994) and the lower investment returns of successful start up ventures to suggest that the current oversupply of new ventures in New Zealand, is in excess to that required to ensure economic efficiency. It is therefore argued that the widespread belief that new ventures should be encouraged and that 'more is better', is questionable. Current Government policy is thus also seriously called into question:

What is the point in Government initiatives to encourage the unemployed to start their own business when all it does is increase the number of business failures. Such initiatives might be seen as little more than a cruel hoax, encouraging those most vulnerable to risk all in order to see them temporarily disappear from the unemployment statistics (Pinfold 1996: 11).

A contrary view, however, is expressed by Sullivan (1996) who views the failure rate as irrelevant and if the initial hurdles involved with the start up process are overcome, the new business will usually endure. Business failure is often said to be due to poor management practice. Yet Pinfold argues that focusing on management failure as the major cause of business failure seems to ignore that since business start-ups substantially exceed the economy's capacity to absorb them, most are doomed to fail (Pinfold 1996: 11). The warnings of Pinfold, though pessimistic, must nevertheless be factored in when advocating self employment as a panacea for unemployment.

¹⁰ The quality of advice and staff at small business centres is crucial. For instance the high success rate of the Napier City 'Be Your Own Boss' small business programme where 82% of new businesses established under the programme were in existence after 5 years was attributed to the quality and dedication of staff running the programme (Bevin 1996: 7 and discussion at presentation of paper).

There is a lack of evaluation of enterprise assistance programmes in New Zealand. Illustrative of the inadequacy of evaluation data is the fact that data on the Enterprise Allowance reveals that 78% of those whose Enterprise Allowance had commenced in January 1993, had not re-registered with the New Zealand Employment Service as at March 1994 (PMTF 1994b: 89). Yet there is no way of knowing whether the recipients have continued in the same business which the Enterprise Allowance supported nor is it even certain that they remained in the labour force. Improved evaluation procedures for enterprise assistance programmes would make it easier to assess the true worth of these programmes in enhancing net employment opportunities.

6.4.3 Self-Employment for Ethnic Minorities

The percent growth in self-employment in Maori and Pacific Island groups has been significantly higher (8% and 17% respectively), than the 4% growth among the total employed labour force, in the 1986-1991 period, yet the likelihood of self-employment among Maori and Pacific Islanders is still very much lower than for the total employed labour force (Krishnan et al. 1994: 53-54).

Obstacles to self employment among Maori and Pacific Island people are chiefly a lack of skills, experience, capital and resources. Racist attitudes and opposition to Maori in business is also put forward as a barrier that has to be overcome in self employment and for small business ventures:

A Maori business can expect to encounter more opposition than would be expected from normal business competition, especially if it is starting to become successful (Boswell et al. 1994: 90).

There have been Government initiatives to directly focus on surmounting difficulties and promoting self-employment among these groups. The MANA Enterprises programme established in 1987 to provide iwi based funding for the establishment or expansion of Maori businesses is one such programme. This programme was initially known as the Maori Enterprise Development Scheme, funded by the Department of Labour. In June 1987, funding moved to vote: Maori Affairs, and the scheme was re-

focused on providing direct assistance for the development of viable Maori enterprises. There has been some criticism of aspects of the programme. For instance, the Enterprise Assistance Review Committee was critical of the lack of accountability under the programme and recommended the scheme,

be modified to ensure full accountability and that the government's contribution to the funding of projects under the (MANA) programme is contained within reasonable limits (Enterprise Assistance Review Committee 1991:2).

Generally, available evidence tends to support the suggestion that the scheme has contributed to job creation at moderate cost. For example, a study of Ngati Kahungunu in the Taiwhenua Districts of Wairoa, Whanganui a Orotu (Napier and environs), Heretaunga, Tamatea (Central Hawkes Bay) Tamakinui a Rua (Dannevirke and environs) and the Wairarapa; suggests that the MANA programme had been a success in creating employment and encouraging Maori involvement in small business. Around 95 businesses had been helped by MANA and over 300 jobs created at an average cost of a little over \$12,000 per job (Spoonley et al. 1993: 200).

The Community Employment Group's Mahi a Iwi services which involves working in partnership with the Tangata Whenua to encourage positive activity and develop employment opportunities, may also be regarded as contributing to enterprise development though at the iwi and hapu level rather than that of the individual. It is a major strategy under the Local Employment and Enterprise Development Scheme. Recently the Community Employment Group announced commencement of an intensive evaluation of Maha a Iwi projects in two regions of the country (CEG 1996: 2). The results of this evaluation should be interesting as it could provide a assessment of the role of small enterprises in employment creation for Maori.

Another initiative for directing more Maori into self employment is the Whahini Pakari programme which was re-established from January 1996. This is a business training and self-employment programme run by Maori women for Maori women.

In 1985, the government formed the Pacific Island Business Development Trust to encourage self-employment among those in the Pacific Island Group chiefly by the providing job-skills training and the financing of small enterprises. The Trust, by 1993, had evolved into a business oriented group aiming to raise the number of self-employed Pacific Island people from the 1991 Census level of 3% to 10% 'in the foreseeable future' (Pacific Island Business Development Trust 1994). A government grant of \$1.7 million made up the major portion of the Trust's receipts in the year to 30 June 1995 and a core activity was provision of small business loans. The Trust also looks to establish joint venture projects for business development. The major project currently in hand is the attempt to establish a joint venture partnership for *Makate Pacifika* (A Pacific Market in Manukau). This project:

will provide a platform for business development in that community and region. A market place will provide a positive setting for modelling business enterprise (Pacific Island Business Development Trust 1996: 1).

During the financial year 1995/1996, a government grant of \$1.6 million through the Ministry of Pacific Islands Affairs, was received and funds from non-governmental sources amounted to \$1.86 million. Funds were allocated to the categories of business loans, business promotion and development, study and training awards and the Pacific Market Project with larger allocations were to business promotion and support and the market project (Pacific Island Business Development Trust 1996).

Working through the Pacific Island Chamber of Commerce, the Pacific Island Business Development Trust provides business education and training and facilitation of the development of business networks. For example the Chamber runs the Be Your Own Boss (BYOB) programme (see Appendix 1), and has recently (latter part of 1996), applied for extra funding from the Community Employment Group, to set up satellite offices where there are concentrations of Pacific Island communities. This application has been successful. Manukau City in South Auckland, is one location for such an office and a Be Your Own Boss programme has

already been run here by the Chamber. A South Auckland business network was also established in June 1996. Access to resources, chiefly financial capital, and the lack of management skills remain, however, obstacles that Pacific Island people continue to face:

Obtaining funds for business development has been difficult. There appears to be a gap in current provisions. The Strategic Result Areas for the Public Sector do not address equitable entry to competitive markets. Owners of capital are very reluctant to accept the risks and returns of projects with both commercial and social objectives. Community associations are not oriented towards business management and have a limited financial base. At present too few people are able to make the transition from under-employment to commercial self sufficiency. Public policies are needed to encourage small businesses which contribute to stronger communities (Pacific Island Business Development Trust 1996: 1).

6.5 Chapter Conclusion

This chapter highlights the importance of entrepreneurship both in the transition to a new phase of capitalist development and for job creation in the New Zealand economy. The lower level of self-employment among Maori and Pacific Island Group people is pointed out and initiatives for promoting small scale business among this segment of the population outlined. The concept of community entrepreneurship was developed to provide a solution to an initial shortage of entrepreneurial talents at an individual level and act as the catalyst for the creation of employment opportunities which would not otherwise eventuate, particularly for labour market disadvantaged ethnic minorities.

Improved Maori access to economic capital arising from Treaty of Waitangi settlements and specific public initiatives to aid Maori into self-employment, will enable greater Maori participation in business ventures. Measures to address the imbalance of Pacific Island people in business and self-employment, however, need to be re-assessed. With the Pacific Group population projected to increase by about 70% over the next 30 years, further firm steps need to be taken to assist Pacific Islanders 'from underemployment to commercial self sufficiency' (Pacific Island Business Development Trust 1996: 1). Similarly, if New Zealand's supply of

entrepreneurship is to be increased through immigration, policy directions and migrant requirements should be re-examined.

In the final analysis, it should be stated that the basic contention of this chapter is that entrepreneurship is a sine qua non for employment creation. Despite opinions to the contrary, the institution of measures to promote small business and/or designed to help overcome obstacles to self-employment may be viewed as an important function of the well-being enabling state. The development of community entrepreneurship, which includes the partnership concept and central and local government collaboration with other stakeholders, could help create much needed jobs at the local or community level. Market-leading community entrepreneurship, in particular, could be instrumental in the creation of jobs on a scale sufficient to empower entire communities to ensure their own private provision of welfare.

Employment Creation: The Community Challenge

Tangia te ururua kia upu whakaritorito te tupu o te harakeke

Set the overgrown bush alight and the new flax shoots will appear

7.1 Chapter Introduction

The previous chapter stressed the importance of entrepreneurship in employment creation so that individuals and communities can be ensured effective participation in market employment in a new era of global interdependence. It was argued that community entrepreneurship which envisages the community supplying initiative and enterprise for the creation, transformation and expansion of employment creating ventures is a valid answer to both an initial lack of individual entrepreneurial skills, and employment opportunities, especially for ethnic minority groups.

This chapter takes the discussion of the thesis down to its final micro level of analysis. It looks at action at the community level to actively create employment. It is the second chapter in Part II of the thesis which is devoted to employment creation. Central and local government initiatives and participation in community employment creation are therefore examined.

The importance of employment creation at this local level is emphasised as a necessary solution to the ethnic unemployment problem in New Zealand. As explained in chapter four of this thesis, assuming that current levels of unemployment represent an equilibrium level, special

efforts are needed at the grassroots level if ethnic differentials in unemployment are to be mitigated.

In terms of the multi-level analysis of the study, the discussion in this chapter is represented by the shaded base of the triangle in figure 7.1. The analysis is essentially a case study to examine local efforts to manage change to create employment. The selected community is Otara, in the South of Auckland, New Zealand's largest urban centre of population.

The case study shows how community entrepreneurship has emerged and is strengthening in the Otara community. It is suggested as an useful model to exploit for the provision of sustainable employment opportunities in disadvantaged urban areas.

FIGURE 7.1



Community employment creation is an integral aspect of community development. The material in this chapter is premised on a 'process' approach to community development.¹ Thus community development involves the process of change,

from a condition where all resources and specialists come from outside to one where local people make the most of their own resources (Sanders 1958: 1).

¹ For a summary of perspectives on community development and community organisation, see Shirley 1979: 23-27.

It is:

a process of social action in which the people of a community organise themselves for planning and action; define the common and individual needs and problems, make group and individual plans to meet their needs and solve their problems; execute these plans with a maximum reliance upon community resources; and supplement these resources and material from governmental and non-governmental agencies (The International Cooperation Administration, quoted in Popenoe, 1967: 261, cited in Shirley 1979: 24).

Compared with the total population, the people of Otara have low levels of formal education. The population nevertheless has a wealth of cultural strengths or cultural capital, a factor frequently overlooked in analyses in which only formal qualifications are considered. Otara therefore, also provides a suitable context to examine the potential for effective direct employment creation on the basis of the extended human capital definition discussed in chapter five, section 5.4.3.

The importance of partnerships in local employment creation is an aspect which the case study in this chapter also serves to highlight. Partnerships in what are termed 'local employment initiatives' (ILEs) are increasingly recognised as the 'key to job creation' (OECD 1993c).

7.2 Fostering Local Employment Creation

7.2.1 Community Enterprises

Encouragement of community enterprises in order to create employment in disadvantaged areas, often inner-city localities and run-down housing estates, has been a local initiative pursued especially in the United Kingdom. The features of the community enterprise model, which it is argued (McGregor and Fletcher 1994) make it more suitable than managed workspaces², to fostering enterprise in disadvantaged localities are:

² This is a type of property development which provides premises from which small companies can operate and hopefully employ local people.

- Ownership and recruitment policy - these are community owned businesses and are linked to a small number of local residents. These residents are 'members' of the enterprise and some of their number form the Board of the company. The control of business policy is therefore based in the local community. This has important implications for local employee recruitment. Employment of longer-term unemployed and other disadvantaged groups in the community becomes possible. This contrasts with the conventional small business where employment of these groups usually depends on job subsidies or other incentives.
- Informal job contacts - the local residents on the Board, can convey information about job vacancies to the wider local community and contribute to the development of less formal recruitment mechanisms. Such informal links may not result when conventional small businesses merely operate in the disadvantaged area.
- Pooling of commitment and expertise - typically in disadvantaged areas such resources are in short supply to individuals who also lack confidence to set up a small business. This obstacle is overcome with the community enterprise.
- Organisational form suited to the community-group style of working which is common in disadvantaged urban communities.
- Profit retention and recycling within the community.

The problems faced by community enterprises have also been highlighted (McGregor and Fletcher 1994, Perry 1993). They are:

- Top-heavy management structure of the locally elected board of the community enterprise makes competition with similar small businesses with a 'lighter' management, difficult.
- The mix of economic and social objectives of community enterprises could stand in the way of financial viability. For example, laying off employees is harder for the community enterprise than the conventional small business who is not encumbered with commitments to the community.
- Responsibility to a local board and the mix of economic and social objectives, complicates the job of the manager of the enterprise. The

manager therefore needs both business management skills as well as negotiating skills to retain favour with the board. It is also difficult to find and retain managers 'with the appropriate blend of commercial skills and community activism' (Perry 1993: 132).

- The community enterprise manager is a salaried employee and there is no direct financial incentive tied to success of the business, unlike for the small business owner operator who benefits from improved profits or the workers' co-operative whose employees have a financial stake in the organisation.
- Despite the ethos of community control, the reality may be that there is limited involvement of local people.

Perry (1993) argues that conditions in New Zealand are less favourable than in Scotland to the community business model and suggests that community co-operatives and community credit unions could be better models to emulate for the organisational structure of community enterprises. Pointing out that the 'honeymoon period' for community business in Scotland is over and only a few of Scotland's community enterprises have made the transition to fully commercial ventures, Perry sees one of the major potential limitations of the model to be its heavy reliance on public sector funding and doubts whether levels of government finance similar to Scotland, will be available in New Zealand. Alternative organisational options of co-operatives and credit unions may thus be preferable, since financial contributions of members can provide a source of funds independent of state or as a complement to state funding. Despite Perry's concerns, however, the community business model has been, successfully used in New Zealand. More recently, the Whakatane Heritage and Recreational Company Ltd has been established as a charitable community company. The aim of this project is the establishment of a 'hands-on museum' and recreational park. It is expected that the sale of trust debentures will be a major source of funding for the project (Boswell et al. 1994: 64-65). Moreover, as mentioned in Section 7.3.4, Enterprise Otara may have been better served by the community development trust format.

In New Zealand there are several successful Maori community enterprises controlled chiefly by resource rich Maori Trusts. Perhaps the best known example is Whale Watch Kaikoura which is under the umbrella of the Ngai Tahu Trust Board which supports over 20 community enterprises (see also section 6.2.2). Successful promotion of existing natural resources for the tourist, made Whale Watch Kaikoura the Global Winner of the British Airways Tourism for Tomorrow Awards in 1994. At the same time, however, there are other Maori community initiatives, that struggle to become a commercial success. Organisational factors have contributed to these difficulties. Management and organisational structures of these less commercially successful runanga, trust boards and local community committees therefore need to be restructured to help them to be more responsive to changing economic and social conditions. Competent executive functions need to be set up to promote community development and enterprise. Commercial activities should be separated from cultural and social commitments. Decentralisation of activities to more community levels of marae/hapu could also foster local level service and participation (Boswell et al. 1994: 88).

7.2.2 State Initiatives

State support of local employment initiatives and programmes has largely involved the activities of the Community Employment Group (CEG), of the governmental Department of Labour. The Community Employment Group is central government's major funder of community based employment initiatives. It works with local communities and groups to facilitate job opportunities that will assist in the move from welfare dependence towards self-sufficiency. There has been strong competition for the limited funds of the Community Employment Group with the demand for funds exceeding supply. Community groups that have had access to Community Employment Group funding are also being urged to implement cost recovery for their services and seek support and sponsorship elsewhere. Moreover, Community Employment Group funding is usually available for the start-up stages of projects but

even successful projects rarely receive the assurance of longer term, on-going funding.

A major theme that emerged from the Prime Minister's Task Force on Employment (PMTF) proposals was that of empowering communities. It was recognised that employment policy solutions should devolve control to local organisations and take advantage of the energy, enthusiasm and motivation within communities. (PMTF 1994c: 5).

A multi-party group, was set up to examine the Task Force's recommendations in order to produce a report with a programme of action on jobs. There was criticism of the group's slowness to act, particularly since the report would be too late to attract government funding for specific initiatives from the 1995 Budget. When the multi-party agreement was finally signed in July 1995 by the leaders of the National, Labour and Alliance parties, there was no commitment to a definite plan of action. The agreement confined itself to an affirmation of policies. Regional dimensions of unemployment had also been de-emphasised with the agreement's focus on national policies for unemployment. Highlighting this aspect, Vicki Buck, Task Force Member and Mayor of Christchurch, was critical of the agreement:

The words in the Employment Taskforce report were about local decision-making and local control. The multi-party document has taken that out and instead talks about local co-ordination and responsiveness. Now that is radically different. They are still thinking of this as being national solutions and that Palmerston North is the same as Dunedin which is the same as Northland. It was so evident to us in the Taskforce that these communities were not the same, and what was going to work was not going to be the same (Jobs Research Trust 1995b).

The new *Focus on Employment* package announced in October 1995, was the Government's response to the Prime Minister's Task Force on Employment findings and the Multi Party Group Memorandum of Understanding (NZ Government 1995). Here the Government's main response to the importance of community empowerment and employment needs of local communities which the Employment Task Force process had highlighted, was a refocus of Community Employment

Group activities and the establishment of Local Employment Co-ordination Groups. The Community Employment Group (CEG) was provided with a new function and priorities. Maori, urban/rural disadvantaged communities, Pacific Islands peoples, and women are the identified priorities. Its primary functions are summarised as:

Community Strategic Plans

- Identify local labour market characteristics, resources, skills, constraints
- Develop strategic community plans
- Prioritise initiatives and projects
- Facilitate development and implementation of plans
- Kickstart funding for some strategic initiatives compatible with plans
- Monitor and evaluate performance against plans

Response to Labour Market Shocks

- Responding to large scale layoffs in communities with high unemployment

Facilitation of Co-ordination

- Facilitating co-ordination at local level, and between local and national levels (CEG 1995: 2).

State support of local employment initiatives is now in keeping with the general trend evidenced in other OECD economies where:

the role of central government with regard to employment shifted to enabling and co-ordinating these activities, rather than initiating and delivering them. Regional and local offices of national employment services were given greater flexibility to respond to local needs, and were encouraged to enter into partnership with other actors involved in job creation' (OECDc 1993:7).

It is clear that the Government,

sees its role as facilitating actions at the local level by bringing people together, opening dialogue, and providing information and advice (NZ Government 1995: 28).

The establishment of a Local Employment Co-ordination Unit in the Department of Labour, in April 1996, is the most recent step in this facilitation process. Through 1996, a network of Local Employment Co-ordinators, contracted to the Secretary of Labour, will be appointed.

These Co-ordinators will assist in the establishment and functioning of local employment groups or committees. These groups will be local level forum for sharing of information and ideas, strategy formulation and identification of employment related goals. It is hoped that in the future, this initiative will prove to be more than just an expensive public relations exercise.

Illustrative of the partnership effort³ involved with the local employment co-ordination group established in South Auckland, has been the production of the document *A Manukau Employment Strategy* which sets out broad goals and strategies for employment creation and promotion in Manukau City, 'for discussion and feedback toward gaining your involvement in carrying them out' (MCC 1996: 1). One of the goals of the strategy is presented as:

Thriving Community Employment Initiatives: Manukau is a developing and diverse community where local initiatives and projects contribute significantly to employment creation and should be supported (Manukau City Council 1996: 7).

Projects of Enterprise Otara and particularly its tourism project (see following sections 7.3 and 7.4), will need to be strongly supported local initiatives, in order to effectively meet this goal. Only time will tell, however, whether *A Manukau Employment Strategy* turns out to be just another glossy publication or the impetus for a detailed project oriented strategy for employment creation in the City.

7.3 A Case Study of Otara

7.3.1 The Otara Community

The definition of community in the Otara context, involves social and economic interaction of members within a relatively small geographic

³ The partners that supported the document are the Community Employment Group, Manukau City Council, the Local Employment Co-ordination Unit in the Department of Labour, Education and Training Support Agency, Manukau Chamber of Commerce, Manukau Enterprise and Employment Trust, and the New Zealand Employment Service.

locale. Members either live and/or work in the locality. Community is:

based on the subjective feeling of parties ... that they belong together (Weber 1947: 136).

This sense of belonging together is a particular feature of the Otara community. It has its roots in the historical development of Otara, as a deliberate creation of the welfare state, has developed as part of the more widespread recent ethnic revival in New Zealand, is strongly linked to religious ties within the community, and has been strengthened by the resistance to the negative stereotype so typically attached to Otara.

Otara is an urban community in the South Auckland city of Manukau with a population of 29,694 people usually resident. It is a clearly identifiable ethnic minority community since 80% of its residents are Maori and Pacific Island people. It has the largest concentration of Pacific Islander/Polynesian people in New Zealand with 53% of its population belonging to the Pacific Island Group. Most non-Maori and non-Pacific Island people live in Redoubt North which is on the Southern tip of Otara, close to Manurewa. Otara also stands out as the general electorate with the youngest population. 55% of its people are under the age of 25 and 38% under 15 years and 46% under 19 years.⁴

The post-war development of Otara is vitally linked to central government state housing policy. When the motorway was extended further South, Otara was developed in the 1950s, as a state housing area. The rationale was that such a development would eliminate inner city 'slums and problem areas' in suburbs such as Ponsonby and Freemans Bay, as well as house a low income labour force in close proximity to a growing manufacturing industrial region. Otara as an

⁴ These statistics on Otara relate to the Otara Ward and are from the 1991 Census of Population and Dwellings. The Otara Ward comprises the nine census area units: Otara West, Otara North, Otara East, Otara South, Ferguson, Clover Park, Redoubt North, Flat Bush, and East Tamaki. Further details on geographical location and population are provided in Appendix 3.

urban community, therefore, was a product of the welfare state's housing and industrial policies.

The economic restructuring of the 1980s, resulting in the closure of two large Freezing Works (abattoirs) and factory closure or downsizing of other industries in the region, meant fewer job opportunities for the largely unskilled or low skilled population of Otara.

The passing of the 1980s saw Otara to a large extent, isolated. The system had failed it collectively and individually (Lunday et al. 1993: 32).

Labour market disadvantaged Otara, has four times the number of beneficiaries per head of population and more than double the number of registered unemployed than the total Auckland Region. According to 1991 census figures, 48% of the available working population are in receipt of a state income support benefit. Otara is an example of a community severely affected by the structural changes of the economy.

Compared with the total population, the people of Otara have low levels of formal education. With only 15% of school children making it to School Certificate and only 5% reaching Bursary level, it is all the more difficult to break out of the circle of deprivation by relying on employment creation through market-following responses. Through market-leading community entrepreneurship, however, a rapid movement of a community from welfare dependence to dynamic economic independence can be achieved.

Otara is a special community with a rich and diverse cultural make-up. It is the multicultural hub of New Zealand. Its young and vibrant population gives it a unique quality. Yet, negative aspects of the community's youth all too often become the focus of media attention. Recently, a front page newspaper article commenting on an adverse report by the Education Review Office on Hillary College, a secondary school in Otara, produced School Certificate pass rates to underscore the low educational achievements of students. These same figures, however, could be used to give a mainstream indicator of cultural capital of the

youth. Compared to School Certificate passes of Grade C or higher of 15% in accounting; 0% in biology; 15% in economics; 16% in English and 12% in mathematics, much higher numbers - 64% of students passed art (*NZ Herald*, 22 July, 1995). Inquiries (personal communication) from the principal of the school also revealed that the pass rate for music was in the high eighties. Maori and Pacific Island Group peoples' cultural bent towards music and the artistic capabilities of these people thus appears to assist in producing the better educational outcomes in the music and art subject areas, other things remaining equal.

'Amoral familism' according to Banfield is:

the inability of villagers to act together for their common goal or, indeed, for any end transcending the immediate, material interest of the nuclear family (1958: 10).

The people of Otara cannot be accused of amoral familism. Instead, interacting through the Maraes, Kokiris, Runanga, Churches, various cultural societies and trusts and strengthened by the difficulties brought on by the economic restructuring of the 1980s, Otara had developed:

an unique form of suburban communalism which would be the envy of many other hard pressed New Zealand communities. Yet this communalism, has not been able to recast or "re-vision" the future of the community. If anything it reinforces the culture of dependency which grips so many individuals in Otara' (Lunday et al. 1993: 32).

Enterprise Otara/Maia Whakaaro, was therefore established in April 1993, to act as the enabler and catalyst for the creation of a vision for the future of Otara. Through consultation with the community and in partnership with both public and private sector players, it was also to be the instrument to bring this vision to reality.

7.3.2 Enterprise Otara/Maia Whakaaro

The establishment of Enterprise Otara/Maia Whakaaro, was envisioned as the mechanism to manage change in Otara. Enterprise Otara, would

provide the means to lift the community out of state welfare dependence and lead to the emergence of a self-reliant community.

Enterprise Otara, a partnership between the Otara community and local business, local and central government, and an independent team of 'honest brokers', was conceived in December 1992. After a number of meetings between the Manukau City Council, community leaders and a facilitator, a decision was reached to enact a strategy for economic regeneration on the basis of:

the philosophy of creating a self-reliant community fired by human resources, that will be innovation driven, make the community the prime mover and foster "ethical" developments (Lunday et al. 1993: 32).

A pilot programme, funded by the Manukau City Council, was launched on 2 February 1993. The informal community meetings held in the first two months, chiefly focused on the revitalisation of the Otara Town Centre. Other issues of current interest to the community, such as the recent closure of the supermarket, were also discussed. The realisation that the community's issues needed to be dealt with in a more proactive manner, led to a workshop to formulate a Kaupapa or Motto or Mission Statement for Enterprise Otara. The Kaupapa that emerged: *The People of Otara Creating an Unique Marketplace*, (subsequently modified by substituting 'environment' for 'marketplace'), was a first step in propelling Enterprise Otara as a community organisation with an undertaking to be instrumental in the economic regeneration of Otara. A report in July 1993, by James Lunday of Auckland University and two Project Coordinators from the community, provided detailed suggestions and plans for the economic regeneration of Otara with Enterprise Otara as the catalyst (Lunday et al. 1993).

The Lunday Report, recommending that the organisational form of a Community Enterprise Development Trust as appropriate, suggested that the goal for Enterprise Otara be:

to work towards a society and economy that encourages all people to express themselves through culture, work, sport, scholarship and recreation. A society that nurtures cultural and creative diversity, excellence, entrepreneurial attitudes and provides the ethical development framework which

protects the environment as an inheritance for following generations (Lunday et al. 1993: 32).

Enterprise Otara was set up, however, as a Society, *Enterprise Otara Incorporated*, with a list of more directly community specific objects rather than the above all encompassing general goal. The objects of the society included:

To raise the self-esteem and promote the self determination of people within the Otara Community.

To identify, facilitate and implement key programmes which will provide the foundation for business success in Otara (Enterprise Otara 1993: 2).

Enterprise Otara seeks to generate economic development of the community through the organisation of projects which contribute toward satisfying the aspirations of the community and will engender community hope and pride. It is important, therefore, to note that it is not possible to gauge the success of Enterprise Otara projects solely by easily measurable economic outputs. A project may not appear to be a commercial success in terms of profit but may be deemed a success in terms of the positive contribution it makes to building community pride, raising aspirations and such like, as has been the case for example with the community newspaper project, a foundation project of the organisation.

The other foundation project of Enterprise Otara was the Town Centre Enhancement Project. The aim of this project was to improve and beautify the Otara Town Centre⁵ so that it would reflect the culture of the community. In the initial stage of this project, the decoration of the bare concrete columns of the fish shaped canopy of the centre with Pacific inspired designs and the covering of the previously graffiti prone sides of the Otara bus depot with a strong Polynesian style mural, was undertaken. This has been the stepping stone in employment opportunities for the talented, young graphic artists, *Primitive Nature*, who were involved with the work. *Primitive Nature* continued to be

⁵ The Town Centre was built in 1967, on the corner of East Tamaki Road and Bairds Road and was called 'Otara'.

nurtured by Enterprise Otara's Project Director (e.g. with advice on the prudence of registering the name *Primitive Nature*, and on other business strategies).⁶ The artistic talents, skills and community spirit of the people are further evidenced in the carvings provided by the Aronui Trust and Whai Ora Marae, and the brackets for the torch and plant holders fashioned by the Heartbeat City Ministry engineering class, for the project.

Enterprise Otara's Proud Music Project aimed at promoting and exposing local artists in the music industry. The production of the album *Proud* in 1994, was highly acclaimed in the music world. It encompassed a musical range from acapella and Polynesian swing, to easy listening and urban rap: contemporary styles yet uniquely Polynesian. The project also involved one of the biggest music tours ever in New Zealand, with 43 young artists travelling from the southern city of Invercargill to Whangarei, in the north. A new wave of Polynesian artists were successfully promoted. Among the now well known names are *Sisters Underground*, *Otara Millionaires Club* and *Fuemana*. One of the musicians involved, Pauli Fuemana, *OMC*, went on to later spectacular success with a hit single *How Bizarre* reaching Number One on the Single Charts in Australia and top of the British pops in 1996. Fostered and facilitated by Enterprise Otara a stand-alone enterprise has now been established: *Urban Pacifika Records Limited* (UPR). The album *Street Soul* is due for release by UPR in September 1996. The compilation follows from a nation-wide talent quest for the best urban Pacific talent of Aotearoa, with a target base of Urban Pacific Hip Hop, RnB, Dance, Soul, Gospel, Rap. Regional talent quests were held in the four main centres, Auckland, Hamilton, Wellington and Christchurch. UPR has agreed to donate 5% its profits to Enterprise Otara. All of this success in the music industry is proof of both the cultural capital of the community and the importance of the initial impetus that community based projects can provide for the investment of this capital.

⁶ This confirms that many youth, particularly those from disadvantaged backgrounds, who set up in self employment, need continued assistance with management and sales and marketing strategies (ILO 1986: 116).

As detailed above, Enterprise Otara has already achieved success with employment creation projects that have utilised the cultural wealth of its community. Furthermore, Maori and Polynesian cultural groups from the community, performing traditional dance and song are considered to be of the highest calibre. They too would have ongoing employment if Otara were transformed into the tourist Mecca of South Auckland, as envisioned in the tourism project discussed in section 7.2.

7.3.3 A Holistic Approach

The Well-Being Centre is another project of Enterprise Otara and it serves to highlight that all aspects of community development are inter-linked. Improved health of people enhances their human capital which in turn increases their employment potential. The proposed Well-Being Centre aims to provide a one-stop health shop in the Town Centre which will be easily accessed and specifically cater to a community with an 80% Maori and Pacific Island ethnicity. Services will focus on the good health promotion and prevention of ill health. These will include child health care, women's health, family planning, youth health, community support services, and services such as translations and traditional medicines will also be provided.

Enterprise Otara moved on from the project's first stage of consultation with the community, health workers and professionals, to support for the second stage of a needs assessment conducted by the Regional Health Authority, North Health. After having actively promoted the concept of the Well-Being Centre and seeing the project through to its in the next stage of the project with an Implementation Group being set up and North Health now actively looking at the prospects for co-ordinated health care in Otara, Enterprise Otara has given the project a life of its own and has dropped out of further direct involvement.

7.3.4 Enterprise Otara: Problems and Prospects

After 3 years of operation, Enterprise Otara has come through its developmental phase while still being dependant on governmental

funding for its continued existence. Although Enterprise Otara has made a significant difference in the community, this contribution has not been objectively measured and actively monitored. Radical restructuring of the Manukau City Council has meant an absence of facilitation and a noticeable support gap from Council for over a year. Redefined roles at the Council, has brought in new people not familiar with Enterprise Otara's history, who are critical of the paucity of periodic reports and detailed strategic plans, not required of Enterprise Otara in the past, yet now essential funding conditions to be met within stringent time limits. Enterprise Otara's past informal operational procedures has also resulted in no clear cut definition of Board and Project Director responsibilities, posing further difficulties. It is now urgent that such organisational details, reporting and other procedures be sorted out and acceptable standards of business planning and performance measurement met, so that the survival of Enterprise Otara is ensured. A clear distinction must be drawn between the governance functions of the Board and every-day running and management of Enterprise Otara by the Project Director. There is also a need for transparency and appropriate procedures for the exit of successful projects from the Enterprise Otara umbrella to be put in place.

In common with several community organisations, Enterprise Otara has been constrained by the guarantee of a continuity of funds. Funding from the Manukau City Council and the Community Employment Group of the Department of Labour on a year-to-year basis has always meant an element of uncertainty for Enterprise Otara. This drip-feed approach to funding, particularly from Manukau City Council, has meant that there has always been an element of uncertainty in relation to continued employment for the Project Director. On occasion in the past, with delays in funds coming through, the Project Director has had to work without pay and rely on back pay to cover the no-pay period. Currently Enterprise Otara is once again in dire financial straits and mounting debts, with expected funding from the Community Employment Group yet to come through. While specific projects have attracted private

support, for example the Proud Music Project was supported by Levi Straus and Coca-Cola, in addition to the Community Employment Group, Manukau City Council and Northern Regional Arts; the lack of funds for some other projects have endangered their commercial viability and limited their scope. Enterprise Otara's community newspaper project for instance, illustrates the difficulties faced when inadequate start-up capital meant an initial lack of dedicated computing and printing facilities and the editor's time often taken up with simple production issues, leaving less time for important management and professional considerations.⁷ Furthermore, obtaining adequate finance for larger scale community driven projects, such as the Otara Cultural Centre envisioned under the tourism project (section 7.4), is however, a formidable obstacle to overcome. The need for innovative financing for such community development projects is discussed in section 7.4.5 below.

Similar to many low income communities, Otara has inadequate professional and managerial skills. The few people within the community that do have these skills, are often 'stretched' and tend to serve on several committees, community boards and the like. Enterprise Otara too has had to deal with this skill constraint. For example, although Enterprise Otara's Proud Music Tour was successful in opening up opportunities by increasing the profile for a number of young acts, it was not well managed and as a result the Manukau City Council had to fund a sizable deficit with a no interest loan to Enterprise Otara. This also is illustrative of the point that a community driven vision needs professional skills to support it as much, if not more so, than straight commercial initiatives. Although the Community Employment Group's community employment adviser has been an invaluable resource, providing strong advisory support to Enterprise Otara, ultimately the community must be able to meet the skill requirement itself. It must be

⁷ Other market factors, like difficulties of a fortnightly publication competing for advertising dollars with the weekly publications in the region, and the generally low margin operation of retail businesses in the Otara Town Centre, have also constrained commercial success.

stressed, nevertheless, that people in community organisations who are initially lacking in skills, often can acquire necessary skills. Learning by doing as well as through participation in training programmes leads to skill acquisition. Board training is a new funding condition imposed on Enterprise Otara by the Manukau City Council. This should benefit inexperienced Board members and help them to be effective leaders in the community. It will also help experienced Board members better understand the demands of the new corporate culture.

Community initiatives are often typically slow moving. The danger of this is that initial enthusiasm can wane. Outsiders or 'honest brokers' have a role both in maintaining momentum and in providing expertise and professional skills. Thus for instance, my enthusiasm for the tourism project and involvement as a new Enterprise Otara Board member, hopefully will help focus Enterprise Otara in its vital role as employment enabler and generator, while James Lunday of the University of Auckland, continues as adviser to Enterprise Otara.

Many community organisations also fail in financial management. Enterprise Otara too has had its share of financial management problems. Accounting, cost management and other procedures currently being set in place as well as the contracting of an accountant since the 1995/96 financial year, will ease the burden of financial management for Enterprise Otara. Unfortunately, accountancy and audit fees further eat into the limited funds of the organisation, adding to financial difficulties.

The organisational form of Enterprise Otara may also be viewed as constraining its activities. Instead of the not-for-profit, limited by guarantee, Community Enterprise Development Trust format recommended in the Lunday Report, Enterprise Otara remains a society with reduced capacity to secure private funding. Even securing charitable status, has not yet been accomplished though the process began early in 1994, it languished until a special general meeting in November 1996 ratified constitutional changes to meet requirements set by the Inland Revenue Department to obtain charitable status. An

organisational structure more suited to Enterprise Otara's evolving undertakings must now be considered. Procedures for the exit of successful projects from the Enterprise Otara umbrella, need also to be put in place.

A new direction that Enterprise Otara is taking, is active involvement with the facilitation of business training and education in the community. Close links with the Pacific Island Business Development Trust and Chamber of Commerce, currently being explored, is likely to be a key facet of this move. Enterprise Otara plans to strengthen its new community facilitation service to provide user-friendly introductions to educational opportunities and providers in order to enable the upskilling of the community.

Action, commencing in the latter half of 1996, to formulate a longer term strategic plan (five year sustainability plan), marks the start of a new era for Enterprise Otara. The formulation of this sustainability plan, it is hoped, will secure Manukau City Council funding over a four year period instead of the usual annual basis. To achieve this, however, it is vital for Enterprise Otara to enter a new era of greater commercialisation and accountability, while maintaining its community goals and vision intact. After 3 years of operation, Enterprise Otara is now ready to move into this latest stage of organisation and financially viable development. The new Board elected in July 1996, it is hoped, will take Enterprise Otara into a new phase of consolidation as a major force in the community employment creation drive.

7.4 The Otara Tourism Project

The tourism project is another initiative of Enterprise Otara. This project aims to develop Otara into a desirable tourist destination through the utilisation of the cultural strengths and talents which exist in abundance in the Otara community. Moreover Otara is a community with a concentration of people from several distinctive ethnic minority cultures. This is unique in New Zealand and could be effectively marketed to the tourist industry. It is envisaged that the tourism project will provide an arena for the community's ethnic groups to promote

their cultures in the form of music, arts, crafts, food and fashion. The tourism project has the potential to provide significant employment opportunities for Otara people and add to the income and well-being of both the individuals involved and the wider community.

7.4.1 Macroeconomic Background: Tourism - A Growth Market

Tourism and travel is the world's largest industry. This is true on the basis of :

virtually any economic measure including: gross output, value added, capital investment, employment, and tax contributions (World Travel and Tourism Council 1992: 2).

As the largest generator of employment, in 1991, tourism and travel accounted for more than 180,000,000 people in jobs, directly and indirectly and 10.2% of global wages. The absolute contribution of tourism and travel to the world economy is expected to more than double to US\$6 trillion by the year 2005 (World Travel and Tourism Council 1993).

The World Tourism Organisation predicts world tourism growth at around 3% to 4.4% to 2005. The growth of New Zealand tourism however, is forecasted to be much higher. The New Zealand Institute of Economic Research (NZIER) forecast New Zealand overseas tourism to grow at around 10% per annum through to 1998/99. It further predicts growth rising to 12% as a consequence of the America's Cup and the Sydney Olympics, in the March year 2000. It is expected that 2.2 million tourists will visit New Zealand in 1999/2000. The New Zealand Tourism Board anticipates \$9 billion earnings in foreign exchange and 120,000 more jobs by the year 2000 (NZIER 1995b: 15-16).

It is not the absolute number of tourists that is the important consideration for the economy. Rather, what is important is their spending in the country. The New Zealand Tourism Board's *International Visitors' Survey* statistics for the first six months of 1995,

indicates a sharp increase in overall average expenditure per tourist, with tourist spending increasing by 44% since 1993. Average spending per day has increased by 57%. An important contributory factor to this large increase in spending has been the recent strong growth in overseas conference delegates to New Zealand. A survey conducted by Ernst and Young showed that international conference delegates spend an average of \$360 per day, excluding international air fares, tours and their partners' spending. Delegates to domestic conferences, although spending slightly less than their overseas counterparts, are also large spenders, averaging \$329 per day. Their average stay however, is a day less (NZIER 1995a: 16, *New Zealand Tourism News* August 1995).

The above figures indicate that the New Zealand tourist market is a rapidly growing one, with an important dimension of this growth being the contribution of the conference and convention sector. At this stage therefore, there is no doubt that the macro conditions are favourable to tourism initiatives. Unfortunately this does not guarantee the automatic success of individual ventures. There is certainly potential for local projects, such as the one proposed for Otara, to tap into this dynamic tourism market. Vision and strategic planning and marketing, however, is a prerequisite for the ultimate success of such ventures.

7.4.2 Author's Involvement with the Project and Community

My direct involvement with this project provides first-hand knowledge of how the project has progressed and enables both evaluation of the project and my help with its implementation. This involvement commenced in February 1995 when in a personally arranged audience with the Chairman of Enterprise Otara, who also brought in the Project Director of Enterprise Otara, I volunteered my expertise as a development economist, to help the community of Otara. Shortly after, I enlisted the support of my Albany Campus colleague, sociologist Ann Dupuis, in order to have a multi-disciplinary team.

In April 1995 a Discussion Paper (de Bruin and Dupuis 1995a) presented *Otara the Vision* as an integrated market-leading approach

which could invest the cultural capital of the community and convert Otara to a desirable visitor destination. This vision was seen as a response to the embryonic community entrepreneurship of Enterprise Otara.

Otara the Vision envisages a series of strategic initiatives to establish Otara as the centre of Maori and Polynesian Aotearoa, by building upon already existing facilities and 'recreating the traditional neighbourhood centre' to empower the people of community (Lunday et al. 1993). It includes the creation of:

- A Unique Marketplace
with the Otara Town Centre becoming a specialist food retailing centre with a market type atmosphere and a strengthening of the already successful Otara Saturday Flea Market.
- A Community Arts and Cultural Centre
to include a Pacific Performing Arts Theatre/Centre and Restaurant Complex; Workshops/Visual Arts Centre and an Arts Exhibition Centre.
- Otara as a South Pacific Visual Experience
provides for the visual enhancement of the Otara Town Centre and Flea Market with entrances, gateways, canopies, art and the co-ordination of landscaping and colour schemes.
- Eco-Development Park and Community Farm
which will focus on projects such as local food production with high priority to herbal gardens, indigenous plants and culturally significant crops such as flax and the development of the new "Otara Waterfront" which will link Otara's historical past to the needs of its future generations.
- The Otara Cultural Trail
will feature "The Otara Pahi" (or Otara Bus) to transport visitors around Otara's attractions - a concept similar to the Auckland Explorer Bus.
- The Otara Festival
an annual event with a cultural and market emphasis. The Otara Festival has the potential to become the foremost cultural, sporting and gourmet Maori and Polynesian 'spectacular' on the calendar (de Bruin and Dupuis 1995a: 12,13).

A direct outcome of this paper was the positive media coverage Otago received⁸. This was the first time that the potential of Otago as a visitor destination had received any national media attention. For example, a full-page feature article by an award winning journalist, was published on a Saturday, in Auckland's daily newspaper, the *New Zealand Herald* (Wong 1995). The positive media coverage at the national level⁹ was also appreciated by the community as it was a welcome change from the usual negative coverage that the community receives.

We now became formally recognised and accepted by the community as two university academics who were interested in the well-being of the community. We were invited to be members of the *Otago Vision Forum* which included the Chairman and the Project Director of Enterprise Otago, the editor of the community newspaper, the Centre Manager of the Otago Music Arts Centre as well as the Programme Supervisor of this Centre, the Director of the Otago Community Centre, and representatives, who were directly connected with Otago, from: the central government agencies - Income Support Services, Housing New Zealand and the Community Employment Group; Manukau City Council and the Manukau Institute of Technology. The Forum would meet regularly on a two-monthly basis and members would inform and discuss matters of relevance to the welfare of the community.

Our involvement in the tourism project was cemented, when we were commissioned by Enterprise Otago, in May 1995, to conduct a Feasibility Study on Otago as a desirable tourist destination.

In order to provide an insight into, and understanding of the potential of Otago as an attractive tourist destination, it was first necessary to visually conceptualise this possibility. We accomplished this through the preparation of an A4 sized colour booklet of photographs and pithy

⁸ The media also focused on the high ethnic unemployment differentials which the paper highlighted. For example Radio New Zealand *Morning Report* programme and the Radio New Zealand ZB commercial stations as well, interviewed me on 2 May 1995 and continued to highlight these ethnic differentials in its news bulletins throughout the day.

⁹ One of the reasons for setting up Otago's local newspaper *Aroha Nui*, in August 1993, by Enterprise Otago, was community concern about the negative image of Otago portrayed, and to a large extent perpetuated, by national media.

captions that captured the essence of the cultural strengths of Otara and what future developments in Otara could be. This booklet proved to be an excellent tool for the researcher and enabled provision of some visual representation of the interest that Otara could hold for visitors. It also was useful to Enterprise Otara for promotional purposes.

The Final Report of the Feasibility Study (de Bruin and Dupuis 1995d) was completed in December 1995 (the executive summary of this report is presented in appendix 3). Since then, the Otara Tourism Project Steering Committee, of which we are members, has been formed and the development of the project is on-going.

Together with my colleague Ann Dupuis, I see myself as fulfilling the Gramscian role¹⁰ of the organic intellectual, moving the tourism project forward to achieve the end goal of market-leading employment creation. It should be noted here of course that this is a modified idea of the Gramscian intellectual; afterall Gramsci was writing his *Prison Notebooks* from 1929-1935, and was interested in 'ideological hegemony' as it applied at the time. I do not see myself either as a hegemonic intellectual nor a counter-hegemonic intellectual in the pure Gramscian sense. Rather, the portrayal of ourselves as the organic intellectual, relates to our role in thinking through the supporting theoretical underpinnings as well as providing academic credibility to the tourism project. Formulation of strategic development plans, preparation of formal funding proposals to government, quasi government and private agencies, innovative financing arrangements and the like, are all part of successful implementation and operation of projects in today's competitive environment. We feel that our input on these matters too is of value. For example, we were involved in the formulation of the Otara Economic Development Fund proposal, as described in section 7.4.5. In all the aspects of our involvement, we

¹⁰ It has also been argued that the New Right in their agenda to dismantle the welfare state have also learned from Gramsci of the importance of organic intellectuals. Think-tanks such as Britain's Institute for Economic Affairs, The American Enterprise Institute, Canada's Fraser Institute are examples of this (Resnick 1994). The studies sponsored by the New Zealand Business Roundtable may be viewed in the same vein, see for example Green 1996.

work in partnership not as leaders, toward the empowerment of the community. We are 'organic' in this sense.

In July 1996, I was elected to the Enterprise Otara Board for 1996/97. As part of a new Board which will move Enterprise Otara into a new era of strategic planning and continued vision for the community, my direct involvement with the tourism project is further consolidated.

7.4.3 Stages of Development of the Project

The tourism project comprises several distinct stages of development:

1. Embryonic Stage

In its suggestions for the positive management of change, the Lunday Report pointed to the potential of Otara to benefit from tourism:

There is a wealth of cultural skill and knowledge embedded within the fabric of this community. Many traditional skills are being passed down by cultural based trusts, church groups and other local organisations. This unique multi-ethnic environment could be developed to attract the valuable tourist dollar to boost the local economy' (Lunday et al. 1993:14).

In March 1994, a model of the Otara Town Centre was developed by Enterprise Otara in conjunction with the School of Architecture, Auckland University. A design model for a Cultural Centre was constructed and this was included as a key part of the Town Centre model. No further steps were, however, taken to act on the tourism potential of Otara until there was input from the Massey University academics on the idea.

2. Theoretical Underpinning and the Culture Print

This second stage was absolutely fundamental to the birth and movement through infancy of the project. It provided the basis for firm acceptance of the project as one of vital importance not only to

employment creation but also to the formal recognition of the cultural diversity and wealth of Otara. The potential of the project to foster pride and raise aspirations, especially of the younger generation, on a larger scale than hitherto envisaged, was now being realised by some leading members of the community. In fact this stage may be viewed as an essential stage in terms of the philosophy of praxis: the linking of ideas with action and change, for Otara.

The development of the ideas that the community of Otara is rich in cultural capital though its people are lacking in human capital, as conventionally defined (see section 5.4.3) and the highlighting that this cultural capital can be harnessed through market-leading community entrepreneurship (see section 6.3), provided the theoretical rationale for the project (de Bruin and Dupuis 1995a, 1995b). The setting out of *Otara the Vision* as described in section 7.4.1, re-named the *Culture Print* in the 1995 Enterprise Otara promotional brochure, provided an impetus to carry the project forward to its next stage of development.

3. Massey University Feasibility Study

In May 1995, Enterprise Otara commissioned research to economist de Bruin and sociologist Dupuis of Massey University, Albany Campus, to gauge the feasibility of the development of Otara as a desirable tourist destination. Our study pointed out that ‘feasibility’ in this context has two prerequisites, both of which must be met:

- i. There must be sufficient talent and capabilities within the community to sustain the programme.
- ii. The programme has to be commercially viable in order to provide ongoing employment to the participants.

The potential for the fulfilment of the first prerequisite already obtains within the Otara community. The cultural wealth of the community provides the base on which the entire programme rests. Nevertheless, this cultural wealth has to be transformed into forms that are marketable and attractive to visitors, at the same time as keeping its cultural authenticity and integrity intact. This however, is a matter for

the community itself and was not the primary concern of the study. The focus of the study was on the second aspect of commercial viability and employment creation. In-depth interviews with a broad range of people with knowledge and expertise in the tourist industry, plus a more informal survey of the friends and relatives market provided the basis on which the researchers based their recommendations.

The key finding of the study was that there was overall support for the idea of Otara's development as a tourist destination. Otara's unique cultural character was widely recognised as were the locational advantages it offered, being close to both the Auckland international airport and the motorway. The chief disadvantage highlighted however, was Otara's negative reputation.

The information gained indicated that the preferred product to be developed in Otara was one of a cultural experience in a one site complex, where cultural performances, food provision and the sale of art and craft work could take place. Informants stressed to the researchers the need for a high quality product of international standard that was reliable and sustainable. It was also thought that the Otara project could fill a recognisable product gap in the Auckland international tourist market. There is also the possibility of it appealing to the domestic tourist market. Research into this latter market however, was not an object of this study.

The Final Report of the study was submitted to Enterprise Otara in December 1995¹¹. For the Otara community, the importance of this study was the confirmation that Otara could develop its tourism

¹¹ Prior to the Final Report, an Interim Report on the basis of a Pilot Survey was presented. The flexibility of the research methodology for the study enabled revision of the format that the research would take, after feedback was obtained on this interim report. Flexibility was necessary in order to take account of the evolving nature of the broad concerns of Enterprise Otara, the funding body for this study. This was particularly important since there was no written brief from the funders as to the exact nature of the 'Vision' to be assessed or the research questions to be answered. In addition, flexibility was necessary in order to take account of information and feedback obtained from respondents as the research progressed. The flexible nature of the approach enabled the researchers to respond to unanticipated questions and issues which emerged during the research process.

potential to provide sustainable employment opportunities. The formulation of strategies to achieve this end, comprises the next stage in the development of Enterprise Otara's tourism project.

3. Strategy Formulation

An Otara Tourism Committee was formed and some members met in October 1995. The membership was to include both the Chairman and the Project Director of Enterprise Otara, the Centre Manager of the Otara Music Arts Centre and representatives from the Te Puke Otara Trust (which is the Otara Community Centre), Aronui, Whai Ora and Ngati Otara marae, Manukau Institute of Technology, Massey University and Pacific Island Performing Groups. The aim of the committee was: 'to promote cultural experiences in Otara to the tourist industry'. The primary objectives were set out as:

- find site
- establish plan for developing concept and marketing concept
- put together working party and locate manager
- communicate with market
- seek investors

Nine possible sites were identified and included the maraes in Otara, the Otara Music and Arts Centre, the Otara Community Centre and the Town Centre. The requirements of the site were listed as a stage, entrance reception, kitchen and eating facilities, shop facilities, facade, and parking. The community, spearheaded by Enterprise Otara, was now beginning to seriously think about harnessing the potential of Otara for tourism development.

An idea, namely to hold a reception in Manukau to show-case the performing arts talents of the Otara community, in honour of the Commonwealth Heads and their delegations attending the November Commonwealth Heads of Government Meeting in Auckland, which could have been beneficial in terms of the positive exposure for the community, was also being worked on at this time. Such a reception

would show-case the performing arts talents of the Otago community. The proposition was taken up with the Prime Minister by the Member of Parliament for Otago and was favourably looked upon by the Executive Director of the Commonwealth Heads of Government Meeting Task Force with the Ministry of Foreign Affairs and Trade. Unfortunately, however, the idea came too late to make the last minute organisation of the reception worthwhile. The lack of early planning meant that the reception would have to be timed when many of the visitors had already left New Zealand, some others would be involved in official bilateral visits in New Zealand, and little guidance could be given as to what the invitation acceptance rate might be. This missed opportunity, however, is illustrative of the need for strategic planning, which is often lacking, if community-led projects are to avail themselves of advantageous marketing opportunities. Diligent planning efforts and effective plan implementation are now urgently needed if the Otago tourism project is to tap into market opportunities presented by the Auckland America's Cup events and the Sydney Olympics 2000.

Following the completion of the Massey University Feasibility Study, new efforts to drive the development of Otago as a desirable visitor destination began early in 1996. A smaller tourism steering committee was formed and at a meeting of this committee it was decided that the tourism project should continue to be managed under the umbrella of Enterprise Otago. A preliminary funding proposal for the salary of a Tourism Project Director and other minimum start up costs involved with setting up a cultural experience for visitors at one of the Otago marae, was put together. A tourism steering committee member volunteered as Project Director, gratis for two months. A more detailed draft proposal for setting up a tourism programme at one of Otago's marae was also subsequently prepared.

At a meeting in July 1996, I sensed a degree of frustration from a couple of the members of the steering committee, at what looked like to them to be unnecessary complications and a slowness to act by marae representatives in considering plans for siting of the project at this

marae. It is possible, however, that this frustration arose out of a lack of understanding of what a marae actually means to the Maori people.

The marae is the wahi rangatira mana (place of greatest mana), wahi rangatira wairua (place of greatest spirituality), wahi rangatira iwi (place that heightens people's dignity), and wahi rangitira tikanga Maori (place in which Maori customs are given the ultimate expression) (Tauroa 1986: 17).

This significance of the marae is sometimes not understood by those from other cultures.¹² Decisions to use the marae for commercial purposes cannot therefore be taken lightly or hastily. This example is also indicative of the practical difficulties of implementing programmes in a multicultural setting. However, I also feel that the frustration I evidenced at this Committee meeting was also due to the focus on a single site for the operation of a tourism project. This was confusing the whole issue of the wider vision of developing Otago as an attractive tourist destination through a series of strategic initiatives. At this meeting, I think I may have played a Gramscian role (see section 7.4.2), by succinctly pointing out that the Otago tourism project was in fact a tourism programme which could comprise several projects which are not mutually exclusive. Thus the programme could simultaneously proceed with plans for establishing a specially constructed multi purpose cultural complex which would include scope for cultural performances, retailing opportunities, workshop and production facilities; a marae experience, and special event organisation and promotion. These are three possible projects within the tourism programme.

¹² There is also a notion prevalent among some non-Maori in the Otago community that the marae in question is a multi-racial marae. This notion is possibly a remnant of the early discussions during the establishment of this marae when the Manukau City Council gave the marae site to the Maori people. This concept of a multi-racial community facility was abandoned subsequently. A marae is a Maori institution and a multi-racial marae is contradictory in principle. It is also very doubtful whether this marae is a suitable venue for regular multi-racial cultural concert performances. Tangis (funerals) and some other uses of the marae would take precedence over a concert for visitors. Regularity and total reliability, however, is necessary if group tour operators are even to consider such an option as a tour stop.

Recent financial problems of Enterprise Otara which has shrouded the Project Director's continued employment in uncertainty, however, has meant that no firm steps were taken on the organisation of the tourism project in the latter part of 1996. Nevertheless, in August 1996, James Lunday and Catherine Edmeades of Auckland University, undertook to carry out, in conjunction with Enterprise Otara, a study into the needs of the Pacific Island arts community and the means for satisfying these needs, including the feasibility of establishing a Pacifika Art Gallery in Otara. The completion of the final report, anticipated in December, should move implementation of the tourism project another step forward.

The tourism project remains a core project of Enterprise Otara. Its goal is to provide sustainable employment opportunities through presentation and promotion of the distinctive ethnic character of the Otara community and the cultural talents of its people. This goal can be realised through the successful market-leading community entrepreneurship of Enterprise Otara.

7.4.4 Overcoming the Constraints of the New International Division of Labour

The New International Division of Labour thesis notes that there is a single world division of labour and a single global market for labour¹³. Advances in information and telecommunications technology are breaking down geographic barriers to employment. Anecdotes like that of the publisher in the US employing typesetters in Bangladesh or China, or the Auckland software company running its UK operations from a farmlet in the Coromandel, (see for example Yarwood 1993), are becoming commonplace. Surplus labour in the developing countries (periphery) and the deskilling of tasks, with new technologies enabling acquisition of necessary skills within a few weeks rather than taking years of apprenticeship and training, leads to the de-industrialisation of the core and relocation of manufacturing activity to the periphery

¹³ For a critique and evaluation of the New International Division of Labour thesis see Thorns (1992): 44 - 56.

(Froebel et al. 1980, Bluestone and Harrison 1983). This mobility of industrial process is complemented by the international market for capital.

Marginal productivity of the international pool of low-skilled labour is equal to or close to zero ($MP_L = 0$). Real wages need to fall therefore, to be aligned closer to MP_L to make currently unemployed lower skilled workers, particularly ethnic minorities in the developed (core) countries, more likely to become employed. In addition, the wage (W) is less than the supply price of labour (SP_L). We thus have: $SP_L > W > MP_L$

In New Zealand, the supply price of labour is the unemployment benefit plus other income support payments and benefits e.g. family support and accommodation supplement plus some return for job search costs. It is argued that when this is more than the low wage that labour can obtain in the secondary sector of the domestic labour market, there is no incentive to take up employment and an unemployment trap develops (see Section 4.4.1).

The development of culture and location specific skills catering to the tourism industry, however, can raise marginal productivity, increasing it above the supply price of labour. Investment of cultural capital through the creation of an urban tourist product in Otago will enable many in the community to escape the constraints of the New International Division of Labour. Commodification of the cultural and multi-ethnic richness of Otago for the tourist industry, through market-leading community entrepreneurship can directly benefit the community. Re-location, restructuring and collapse of industries, which had previously provided the basis for full employment in the region, but were now forced to comply with the international division of labour of a post-Fordist era, had resulted in job losses by the hundreds. Job creation on a much larger scale than the encouragement of small scale community enterprises can ever hope to generate, is therefore necessary to compensate for these job losses. Tourism development is an adaptive response of the community which works within changed global employment conditions and the post-Fordist system of more

flexible production. Most importantly it can achieve job creation on a scale large enough to play a significant role in the economic regeneration of the locality. Production of culture based commodities for the tourism market could also be instrumental in the urban redesign of Otago through use of any industrial and warehousing space left vacant by industries that were unsuited to the post 1984 era of greater competition.

7.4.5 The Need for Innovative Financing

One of the major hurdles that community driven projects face is the securing of on-going finance. Community projects have usually to seek funding from multiple sources. Central and local government funding normally comprises seeding funds for projects. The Community Employment Group, for example, typically provides short term kick-start funding for smaller scale projects. It is most improbable for funding for large scale projects of a longer term nature, such as Enterprise Otago's tourism initiative, to be adequately sourced from governmental sources. It is important therefore for such projects to be able to tap into private sources of finance. Corporate involvement in schemes with a large developmental component and an unproved market, is also, however, extremely unlikely. Finance from alternative sources need therefore, to be explored.

Immigration programmes have been used overseas as an innovative means of providing financing for projects of community value. For example, the Province of Prince Edward Island uses funds from investment syndicates under the Canadian Government Business Immigrant Investor Program to finance approved projects that upgrade the Province's infrastructure, including telecommunications, transportation, industrial and residential infrastructure. One of the projects that such funds are currently being directed to is the financing of the construction of a modern high-technology fish and lobster food processing plant. This plant will expand the existing fish processing operations, chiefly of the renowned Prince Edward Island lobster, to produce high value added products, such as lobster, crab and shrimp

pate and stuffed lobster tails, to meet the demands of a changing global market.

The concept of an Otara Economic Development Fund to be the vehicle for investment by business immigrants in Otara's tourism project, is now being actively explored. This concept involves partnership with central government who would need to grant a points concession under its immigrant points system in order to encourage business migrant investment in the Fund, private investors, Manukau City Council participating chiefly possibly through providing council owned land for the project and the local community as owner and operator of the cultural complex¹⁴. Migrant investment in community oriented initiatives such as the Otara Economic Development Fund, will benefit not only the communities involved but will also be beneficial in terms of building inter-ethnic goodwill in New Zealand.

7.5 Chapter Conclusion

Local initiatives for employment creation are vital to the mitigation of high unemployment levels of Maori and Pacific Island people. In order that local communities be empowered to determine their own outcomes, however,

we need a new concept of state, market and community partnerships working to common agendas. The transition from a dependency culture with "providers" to an enterprise culture with "enablers", and the idea that local communities can hold the key to their own destiny through personal and community enterprise' (Lunday et al. 1993: 33).

The activities of the Community Employment Group is an important aspect of the current enabling mechanism of central government. The changed priorities of the Community Employment Group and the new network of Local Employment Coordinators, it is hoped will better enable communities to create sustainable employment opportunities.

¹⁴ The process of community consultation on this idea is yet to be initiated. The Minister of Immigration and the Community Employment Adviser of the Community Employment Group have already been supportive of the idea.

Local authorities also need to be more proactive as partners in and enablers of local employment initiatives.

The endeavours of Enterprise Otara, its success in projects undertaken through partnership, illustrates that the partnership concept is an essential part of the response to the post-Fordist regime of flexible production and the new international division of labour.

Culture and ethnicity can no longer be treated as a residual category in economic development. Enterprise Otara initiatives illustrate the possibility of harnessing social and cultural energy and investing cultural capital through community entrepreneurship.

Community initiatives are often typically slow moving. The danger of this is that initial enthusiasm can wane. The collaborative role of outsiders in the participatory development or 'bottom-up' approach to employment creation can therefore also be important to 'getting things moving' at this level.

There appears to be a prevalent view that grassroots responses to unemployment are necessarily small-scale ventures. The community entrepreneurship model presented in this thesis, however, provides scope to get away from this 'small is beautiful' mind-set when it comes to local employment initiatives. The Otara tourism programme for instance, is a vision that can be realised to generate viable jobs on a scale which will be a significant enough to be a panacea to unemployment in this labour market disadvantaged locality. Vision, coupled with people dedicated to particular projects in the community, however, is ultimately a good recipe for the success of community employment creation initiatives whether they be big or small in scope. The Otara tourism project also highlights that strategic planning needs to run parallel with community vision.

It is particularly important that with local employment initiatives, careful thought be given to appropriate organisational form and management structure. Choice of organisational form can hinder or aid

the success of local employment initiatives. Government agencies such as the Community Employment Group have an important role to play as advisors on such issues especially in disadvantaged communities where management expertise is lacking. There is no one 'best' organisational structure and imported models cannot be directly transplanted to various types of New Zealand soil (communities). Alternative organisational forms to suit each initiative should be evaluated. Innovative partnerships for the financing of local employment initiatives also need to be actively explored.

In the final analysis it needs to be stressed that local employment initiatives often yield additional benefits to the number of jobs directly created. Enhanced group cohesion, self-esteem, creativity, leadership and management skills, reduced potential ethnic and racial conflict and the avoidance of the barriers of racial discrimination, are all possible benefits of such people-oriented initiatives. Above all, local employment initiatives can avoid the marginalisation of whole communities such as Otago, as well as position them for the world economy of the 21st century. Culture-based approaches to economic regeneration of communities, such as the Otago tourism programme affords, are also invaluable in the light of the new international division of labour and heightened global competition.

Conclusion

An initial premise of this thesis is that developments within national boundaries are conditioned by changes at the global level. The global level analysis played an important role in the overall methodology of the thesis. Although it may be argued that to some extent it deals with stylised historical facts, the global level discussion serves significant purposes. Firstly, the inclusion of a discussion at an overarching global level highlights the necessity for economies to adjust to a new techno-economic paradigm. It provides the rationale for the 'new conventional wisdom' that social and institutional arrangements must adjust to changing international circumstances. The Keynesian welfare state which was supported by a historically-specific set of favourable international conditions, must now give way to a new state form. Secondly, it indicates the nature of the capital-labour relation that prevailed during the earlier phase of capitalist development, and the conception of the wage which took into consideration a minimum standard of living and gave rise to the 'family wage' in New Zealand, as discussed in chapter 3. It then highlights a common belief that the social wage and the market-clearing price of labour should achieve a new balance which more reflects the new international division of labour and necessitates deregulation of the labour market. Typical of such rationale is the sentiment embodied in the following assertion:

...codes which reflect social standards of justice and equity from times when unemployment was low may be inappropriate in the current situation of inequality in employment opportunities...it would therefore seem appropriate to assess to what extent institutional structures are hampering competitive wage adjustment, and to identify areas where changes in government policies could assist employment-creating wage-setting (OECD 1994c: 1).

This generally prevalent line of thinking provides a background to understanding the push for change to wage setting processes at the national level in New Zealand. Thirdly, the global level discussion sets the scene for the analysis in subsequent chapters, of the roles of human capital and entrepreneurship in coping with the challenges of a new era. Finally, it also signals the dangers of the negative economic and social consequences that may emerge from policy responses to the changed constellation of international forces.

The changing approach to welfare provision is a theme that runs through the thesis. Hence the transformation of the welfare state in New Zealand is viewed in terms of a re-ordering of the welfare mix away from state provision toward greater acceptance of individual responsibility for well-being. Underpinning this transformation is also a change in the notion of what constitutes well-being. The concept of well-being was shown to be perceived no longer in terms of the government ensuring levels of income to 'belong and participate in the community', but rather of government provision of 'a modest safety net'. Highlighting the collapse of its foundations of full employment and the family wage together with the industrial relations framework which supported it; the break-down of the nuclear family form and the discarding of the implicit contract of guaranteeing a 'modest affluence' to all; this thesis argued that the fundamental transformation of New Zealand's welfare state makes it less appropriate to refer to it as a 'welfare state'. The terminology, 'well-being enabling state', is thus developed in the thesis to emphasise the changed nature of the welfare state. Central to this transformation is the changed nature of employment policy. Employment policy, and strategies to build New Zealand's human capital, as a subset of this employment policy, as crucial aspects of a well-being enabling state, were therefore considered.

At the institutional level, the new industrial relations regime as embodied in the 1991 Employment Contracts Act, as an integral aspect of the well-being enabling state and employment policy, was examined. While radically altering the earlier relationship between the state and

the labour market, this study emphasises that the true impact of the Employment Contracts Act is yet to be agreed upon and supported by conclusive research findings.

Underpinning some employment policy measures of the well-being enabling state, for example the April 1991 reduction of benefit levels, has been the notion that individuals actively choose leisure rather than engage in job search. As discussed in chapter 4, however, there is no convincing evidence to show this to be the case. These policy measures have not therefore enabled well-being. To the extent that employer discrimination and occupational and skills mismatch exists, however, this study supports active labour market policies, chiefly labour market training, and other policies to enhance human capital, as appropriate remedies. Similarly, subsidised jobs at the community level have a role to play when employers perceive some groups of workers to have a negative marginal product and active labour market policies in the form of government wage subsidies, are ineffective in securing employment for these workers.

This study provided a detailed examination of active labour market policies which form a key facet of current employment policy. Drawing attention to the rejection of New Zealand's traditional form of active labour market policy - state sponsored direct job creation schemes, as well as the possibility of deadweight, substitution and displacement effects of job creation, it was nevertheless suggested that both with job creation as well as labour market training programmes, the design features of the programmes could make a crucial difference to their effectiveness. An overall poor record of labour market training programmes in leading to successful employment outcomes could be mitigated if more emphasis is placed on small, more expensive programmes which are targeted and closely linked with employers in the locality. Priority should also be given to the improvement of basic education and the acquisition of more elementary skills, as this results in a higher probability of employment than out-of job training. Other relevant policy recommendations that arise in this connection are the need for continuous review of eligibility criteria for active labour

market policies and proper evaluation especially to assess their net employment outcomes, as well as re-thinking of the currently fashionable rule-of-thumb that wage subsidies to private sector employers are superior to other direct job creation approaches. There is a strong need for the latter re-appraisal since there is evidence that community based job creation targeted to suit the needs and abilities of specific labour market disadvantaged groups, have a high incidence of additional employment generation. In the area of job placement and broking services, these could be provided by both public and private sector agencies and intensive case management to enhance exit from unemployment is also supported.

This study stresses the crucial role of human capital in building the nation's capability to meet the demands of a new technological era. The prerequisite of a skilled, adaptable labour force if New Zealand is to avail itself of the opportunities presented by the global economy and cope with the demands of the new knowledge intensive phase of capitalist development is a foregone conclusion. For an individual, too, enhancing education and skills is an accepted route to enhanced employability and/or improved income levels. Enhanced human capital at the national and individual level is thus asserted as a normal path to improved market-based well-being, and the role of the state in this area is appraised.

Although New Zealand has implemented extensive educational reform, it is shown that major educational challenges remain. Effective involvement in school governance in some communities is yet to eventuate. Equity considerations also arise when access to educational opportunities are constrained by ability to pay and educational performance is hindered by difficulties arising from general social conditions and poverty. Although progress has been made in early childhood care and education, inadequate funding which impacts also on the delivery of appropriate curriculum to Maori and Pacific Island children, and a poorly planned and co-ordinated approach to early childhood services, indicate that there are deficiencies in this area which need to be remedied. Given the importance of early childhood care and

education for later life chances, the recommendation that early childhood care and education be treated on an equitable basis with the schools sector is therefore worth pursuing. Further educational policy recommendations emerging from the discussion in chapter 5 were the need for immediate implementation of measures to assist under-performing schools. The establishment of a new crown entity - the *Schools Strategic Development Centre* and incentives to attract quality staff and exit incentives for low quality staff in 'problem schools', would be steps in the right direction.

In the pre-1984 days of the welfare state in New Zealand, segments of the state sector, especially state owned trading enterprises such as Railways and Ministry of Works and Development, were not only major employers but also supplied on-the-job training and an extensive system of apprenticeships. Privatisation of state sector activities and the devolution of responsibility for industry training policy and its implementation to Industry Training Organisations, have brought about dramatic change to on-job and off-job training for industry. Theoretically the new industry-driven approach to training augurs well for the up-skilling of the labour force in line with industry needs. In chapter 5, some practical problems however, were delineated. These problems need to be tackled if the industry training system as a vital component of the *Skill New Zealand* strategy, is to live up to expectations. The potentially lower accessibility of some women to industry training is an equity consideration raised in this thesis and which also must be faced up to.

The lower formal educational achievement of Maori and Pacific Island groups was shown to be linked to their labour market disadvantage. This research therefore examined both, strategies for the enhancement of the human capital of ethnic minorities, as well as, immediate shorter term strategies for reducing ethnic unemployment, working initially within the existing constraint of the lack of human capital. Extensions to the conventionally defined concept of human capital through the consideration of cultural capital, as well as the improvements in human capital which will result as a corollary of community employment

schemes, were therefore taken into account to recognise that a lack of formal educational qualifications need not necessarily be a barrier to employment.

For the future, the younger demographics of the Maori and Pacific Island Group and their entry into the labour force, improves the potential for reshaping this segment of the labour force in less time than other population groups, and poses a challenge that the education and training sectors must effectively meet. It is essential to realise however, that underlying economic and social conditions and social policies, are inextricably linked to educational deficiencies of ethnic minorities. Similarly, focusing on broad quantitative indicators such as the improvements in school retention rates of ethnic minorities may only mask the reality that:

An economy that offers little opportunity for learning on the job may give very little reward to expanded education in schools and very little opportunities for such expansion to emerge in genuine productivity increases, whatever the income distribution patterns may be. Breaking through the circle of lack of qualified people and lack of opportunities to qualify by experience can be difficult (Bowman 1964: 463).

The crucial difference is that when Bowman pointed to this difficulty in the 1960s, New Zealand did not suffer any lack of opportunity for learning on the job. In the technology and knowledge intensive 1990s, however, as the skills gap particularly of those groups over represented among the jobless becomes evident, such opportunities have become much fewer. This strengthens the case, therefore, for direct action for creation of additional opportunities at the local, community level.

This thesis adopted a straightforward, linear approach to discussion of the enabling mechanism for market based well-being provision. The basic contention is that those already unemployed and those newly entering the workforce, have to be able to move into market employment in order to be able to procure their well-being. Recent employment policy which seeks to achieve this was therefore appraised. It maybe worth reiterating here, as initially drawn attention to in section

1.1: 5, that the measures aimed at the individual within the labour market were the major focus, though more macro level issues, such as the industrial relations framework and the role of human capital and education reform, were also covered. The follow through contention is that employment creation is a prerequisite for the availability of jobs.

It is nevertheless the case that we are once again passing through a period in which a gap is opening up between the speed of technical progress, which is concerned primarily with how to produce (manufacturing processes and work organization) and which often destroys jobs, and our capacity to think up new individual or collective needs which would provide new job opportunities (Commission of the European Communities 1993: 11).

The supply of entrepreneurship and efforts at the local level for job creation, were therefore examined since they are two vital aspects in the process of creating new job opportunities.

Overall strategies for employment creation at the community level, covered under this research, were grouped under the categories market-following and market-leading. Through community centred market-leading initiatives, employment, which would otherwise have not eventuated, can be created for labour market disadvantaged groups. Community efforts must be instrumental for the growth of local employment opportunities. Such direct community job creation programmes can also build on cultural strengths, heritage and ethnic identity, all aspects of cultural capital. Furthermore, a critical proposition of this study was that innovative efforts for employment creation at the community level was vital to the alleviation of the ethnic unemployment problem. As New Zealand has moved more recently to what may be suggested to be an equilibrium level of unemployment, significant ethnic differentials in unemployment have emerged as one of the major socio-economic problems facing the country. The need to augment job creation which occurs through the normal process of economic growth, with efforts to actively create employment at the community level has thus become even more pressing.

In its examination of entrepreneurship as the catalyst of employment creation, this study points to the importance of entrepreneurship in the transition to a new phase of capitalist development. A chief focus of this segment of the study, however, is on an examination of more micro level responses for fostering increases in the supply of entrepreneurship. Thus state initiatives to support small business and assist unemployed persons and steps to encourage ethnic minorities into self employment are appraised. Not surprisingly, the overall thrust of supporting small businesses and self-employment in New Zealand, is in line with policies in other OECD countries. The high rate of small business failure and the possibilities of deadweight losses, nevertheless need to be considered when assessing the value of such measures. A useful policy recommendation in this connection is that measures to assist prevention of small business closure are as important as those which assist start-ups. Despite some opinion to the contrary, government sponsored programmes which enable the unemployed into self-employment have a worthwhile role to play in creating employment as well as encouraging involvement of labour market disadvantaged groups in small business. They are an important function of the well-being enabling state.

To overcome the problem of the paucity of individual entrepreneurship in some localities and among some ethnic minority groups, this study developed the concept of 'community entrepreneurship' to supplement the supply of individual entrepreneurship and act as a driving force in local job generation. Community entrepreneurship would provide an overall leadership for communities to face the adaptive challenges of retrenchment of the welfare state and meet the market realities involved with the creation of commercially viable community based business enterprises. It could also play a part in the recognition and release of potential human capital and the conversion of cultural capital into economic capital. This will provide a way of empowering local communities to shape economic opportunities, to alleviate poverty and reaffirm cultural heritage and ethnic identity.

The case study of Otara provided a suitable context to examine the potential for effective direct employment creation through community

entrepreneurship. This empirical analysis also highlighted the problems faced and prospects for community organisations endeavouring to enhance local employment opportunities. The importance of local employment initiatives and the partnership concept in the mitigation of high unemployment in disadvantaged communities, too was affirmed.

Enterprise Otara's tourism project provided a specific example of how direct community based employment creation for ethnic minorities can be driven by community entrepreneurship, especially through the mobilisation of cultural capital. The project is truly market-leading since a new tourism product would be created, thereby stimulating employment opportunities for the community, which would not otherwise occur. This research could also provide the basis for breaking down a prevalent view that grassroots responses to unemployment are necessarily small-scale ventures and to get away from the 'small is beautiful' mind-set when local employment initiatives are involved since success of the tourism project could lead to widespread economic regeneration of Otara. Additionally, the collaborative role of 'outsiders' in the 'bottom-up' approach to employment creation was shown to be important in 'getting things moving' at the community level. Furthermore, an interesting premise that the tourism project analysis developed was that the development of culture and location specific skills associated with the new urban tourism product, would enable escape from the constraints of the new international division of labour which brings labour in the developed countries into direct competition with the 'cheap labour' elsewhere.

This research closed an information gap in the understanding of the implications of the operation of the labour market at a micro, local level and the potential for managed interventions for job creation. It provided case study data on which to base effective strategies for reducing ethnic employment differentials. The community entrepreneurship model can beneficially utilise partnerships between private business, local and central government, community groups and individuals who act as the Gramscian intellectuals or 'honest brokers', to create local employment opportunities. The model was also shown to

work within existing constraints for groups with low levels of formal educational attainment.

Finally it should be mentioned that two major topics linked to this thesis are the welfare state and unemployment. Both topics are the subject of a very large and continually expanding body of literature. For practical purposes, therefore, it was necessary to set boundaries when conducting research on such wide topics. Therefore, selected economic theory on unemployment only in so far as it was linked to New Zealand's employment policy response was covered in this study. In its coverage of the welfare state, at the global level this thesis chiefly dealt with an examination of the welfare state in relation to it being an outcome of a phase of capitalist development. The New Zealand welfare state was covered chiefly in relation to employment policy and employment related strategies that are designed to reorder the welfare mix. Thus for example, although health policy is a vital aspect of the welfare state and its restructuring in New Zealand, this area was not discussed.

8.1 Future Research

As Hicks and Chin (1984a) concede, there has to be some socially optimum level of benefits relative to labour income. On the one hand there is a range of benefit levels, where higher benefits increase the gains to society because of better job matching and improved productivity. On the other hand, there must be some point where the level of benefits results in a disincentive to work and greater consumption of leisure at taxpayer expense. As pointed out in section 3.3.1, the level of benefits to support the 1991 benefit cuts in New Zealand, were justified on the basis of faulty Treasury calculations of an alternative poverty line. Well thought through research on the optimum level of benefits where gains to the individual do not exceed the gains to society, needs to be conducted.

Of necessity the proper level of benefits will be the result of value judgements but the quality of these judgements could be improved by appropriate research (Hicks and Chin 1984a: 33).

Effective social links and contacts can aid the process of finding a job. The lower levels of social capital of ethnic minority groups could lessen their search effectiveness. An 'unemployment culture' can also develop when there is a lack of social pressure to look for a job. The fact that others in the neighbourhood are unemployed, has an external effect on the job search behaviour of individuals in that neighbourhood. Peer pressure to find a job is much higher when an individual is the only one unemployed in the group than if all the others in the group are also unemployed (Layard et al. 1994: 62). A network approach to the study of unemployment in New Zealand (Levett 1995), could therefore be a useful supplement to job search economic theories.

An examination of Australian labour market programmes indicates that it may be possible to make comparisons between Redfern, which is an urban, disadvantaged enclave in Sydney, and Otara. Research currently being carried out by the Centre for Aboriginal Economic Policy Research of the Australian National University, identifies efforts to establish a viable aboriginal labour market separate from the mainstream labour market.

The former Australian Government's White Paper on employment, recognised in its 'Job Compact' the importance of direct community job creation particularly in regions where private sector employment opportunities are thin or for people who are unable to be placed in other employment programmes (Commonwealth of Australia, 1994). The Community Development Employment Projects scheme was part of the Job Compact, though the Community Development Employment Projects scheme itself was initiated in 1977 and grew considerably since then. In Redfern, the Redfern Aboriginal Corporation has developed a Community Development Employment Projects Mission Statement which gives high priority to culturally-based objectives. These 'cultural goals' are the strengthening of Aboriginal identity, improving self respect and confidence and the provision of positive role models. Environmental goals set out are: the improvement of physical well-being, living conditions and public image. These two sets of goals are in addition to commercial goals which are: the provision of employment

and training and the establishment and management of profitable commercial enterprises (Smith 1995b). There is a broad similarity between these goals and those of Enterprise Otara. Detailed study of Australian community employment schemes such as the Redfern scheme, to obtain lessons on sustainable community based employment creation that can be used to help disadvantaged communities in New Zealand, could be a useful area for future research.

The development of tourism has important implications for the communities concerned. Yet in New Zealand, few research results are currently available on the implications of tourism expansion for local communities. Research is needed to identify community attitudes toward tourists and visitors and the local impact of proposed tourism ventures. Interviewing focus groups may be one method to assess the reactions of a community involved with a specific tourism development. Monitoring the community consultation process so as to gauge the extent to which the community feels that the project is not a 'top-down' initiative but rather that it is a project that the community can identify with and claim ownership of, could also be an aspect of such research.

There is a need for more research to evaluate the impact of local employment initiatives in New Zealand. The achievement of cultural goals such as strengthening of ethnic identity, improving self respect and confidence and provision of positive role models, in addition to the usual commercial goals of providing employment and training and the establishment of profitable commercial enterprises and the like, must be assessed. Environmental goals may be another consideration to enter the equation. Since commercial viability is not the only aim of such initiatives, a social audit should form an integral part of any evaluation. Recently the Community Employment Group announced commencement of an intensive evaluation of Maha a Iwi projects in two regions of the country (CEG 1996a: 2). Evaluation guidelines used and the progress of this exercise will be useful for comparative purposes when conducting evaluation of other local employment initiatives.

8.2 Concluding Comments

Alain Lipietz proposes an interesting substitute for the welfare state in this new era of capitalist development. A core aspect of his alternative development model is:

the development of the welfare state into a welfare community, with the setting up of a third sector of community work schemes which could be self-managed, contractually bound to end-users, and part of a logic of local development founded on partnership (Lipietz 1992: 145).

The welfare community would be a new sector of activity - a 'socially useful third sector', whose size would be limited to maybe around 10% of the labour force, produce goods and services which are not profitable by normal capitalist standards and succeed where the education system has failed, giving another chance to marginalised young people (for full details see Lipietz 1992: 92-110).

In the light of New Zealand's high ethnic unemployment, as well as 'work-for-dole' requirements that are imminent, this idea of a third sector appears to be an appealing option. Such a welfare community would also be able to give full recognition to the importance of cultural factors in the social well-being of communities for as it has so eloquently been said:

Culture is like a tree, if its green branches - a people's language, legends, customs - are carelessly chopped off, then the roots that bind people to their place on the earth and to each other also begin to wither. The wind and the rain and the elements carry the topsoil away, the land becomes a desert (cited in Klymeyer 1994b: 195).

Furthermore, it would result in the empowerment of local communities to determine their own outcomes. As highlighted in the Otara case study, however, solutions for closing the skills and management gap will have to be carefully thought through. The success of the welfare community would also depend upon the development of adequate administrative apparatus to provide accountability over the decision-making and implementation process. It should be noted, however, that

there is an important difference between the activities of the welfare community and projects fostered through community entrepreneurship as discussed in this thesis. The latter are market based and aim ultimately to be sustainable, profit oriented commercial ventures, fully integrated with the capitalist system of production.

While the consolidation of a welfare community could be an alternative means for spurring local development and may be a feasible option, it is unlikely that the 1991 Employment Contracts Act circumscribed wage setting regime currently prevailing in New Zealand, would provide circumstances conducive to emergence of another important facet of the Lipietz alternative development model:

a new wages pact, based on the negotiated involvement of workers in exchange for control over the introduction of new technologies, a dynamic guarantee of employment, and an increase in free time (1992: 144).

Such a wages pact would involve a new political agenda and modification of the currently prevailing form of compromise between capital and labour. It is a challenge which will not be taken up in this century, but could be explored for twenty-first century New Zealand.

Toward the beginning of this century, in the introduction to his book on unemployment, the economist Pigou (1913) wrote:

It is thought by many that the attitude of economists in the face of obvious social evils is unduly contemplative; that conditions, which involve the misery of untold thousands and the withering of incalculable human promise, are for them no more than the theme for ingenious disquisitions, and an excuse for a number of scarcely comprehensible formulae. Assuredly this is a mistaken view. The compelling motive that leads men (sic) to economic study is seldom a mere academic or scientific interest in the movements of the great wheel of wealth. It is rather that, in the world of business and of labour, justice stands with biased scales; that men, women and children stagger often into an abyss that might be fenced and guarded; that the lives of many are darker than they need be; that the wealth, on which western nations pride themselves, bears but a faded flower of welfare. In these things lives the impulse to economic investigation; and the removal, or at least the mitigation, of the evils they portray is the goal of the economist's search.

As we draw near to the end of the century, the reputation of economists appears no better than it was at the beginning of the century, yet the goal of many economists remain as Pigou envisaged it. Certainly if economists can help toward mitigation of unemployment, they are on the way to fulfilling this goal. Afterall,

There is plenty we can do to reduce unemployment. It is far from natural, and not beyond our power to control (Layard et al. 1994: 112).

In particular, economists could make a valuable contribution to improving welfare not only by highlighting the case for employment creation through appropriate macroeconomic management, but also through further research into micro level responses for employment creation. The multifaceted nature of the unemployment problem requires a raft of policies to deal with it and as unemployment takes on spatial and regional dimensions with differing implications for ethnic groups, specialised micro solutions become as important as macroeconomic policies.

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Appendix

Appendix 1: Labour Market Programmes and Incentives

i) Employment Subsidies

<i>Title of Scheme:</i>	Job Plus
<i>Administering Agency:</i>	New Zealand Employment Service (NZES)
<i>Description:</i>	A negotiated wage subsidy paid to employers for a fixed period of usually up to 6 months. The level of subsidy varies according to the period of registered unemployment and individual circumstances of the job seeker, and local labour market opportunities. The job must meet specific conditions: it must be a permanent position lasting much longer than the subsidised period i.e. not a short term or casual job; provided the employee is not disabled and can only work part time, it must be for at least 30 hours per week; wages must be the usual rate for the job, which must be the minimum wage or better. Employers are not eligible for the subsidy if they have directly or indirectly discharged a worker in order to employ a subsidised worker under the scheme. The subsidy is not paid for any employee who was previously employed either full or part time by the employer within the last 12 months.
<i>Target Group:</i>	Job seekers (usually continuously) registered as unemployed for 26 weeks or classified as disadvantaged
<i>Title of Scheme:</i>	Job Plus Training
<i>Administering Agency:</i>	New Zealand Employment Service (NZES)
<i>Description:</i>	An extension of the Job Plus programme which enables job seekers to obtain two weeks pre employment training prior to taking up a specific vacancy or funding for employers to provide on the job training for up to two weeks.
<i>Target Group:</i>	As for Job Plus
<i>Title of Scheme:</i>	Modification Grant
<i>Administering Agency:</i>	New Zealand Employment Service (NZES)

<i>Description:</i>	Funds for modification to workplace, equipment, and access, to employers recruiting job seekers with disabilities.
<i>Target Group:</i>	Job seekers with disabilities
<i>Title of Scheme:</i>	Taskforce Green
<i>Administering Agency:</i>	New Zealand Employment Service (NZES)
<i>Description:</i>	Provides a wage subsidy to employers offering full-time, temporary, project-based work of benefit to the community or environment. Participants receive a wage negotiated with the employer or sponsor. Aim is to increase the probability of subsequent employment by updating or improving existing skills or acquiring new skills.
<i>Target Group:</i>	Job seekers enrolled with NZES more than six months.

ii) Other Work Experience and Training

<i>Title of Scheme:</i>	Community Taskforce (CTF)
<i>Administering Agency:</i>	New Zealand Employment Service (NZES)
<i>Description:</i>	Provides work experience for job seekers through projects which are of community benefit. The objective is to improve work skills of participants and thus increase their chances of securing a job. The programme also helps organisations to set up sponsors who provide three days of work per week for up to six months. Participants continue to receive their benefit payment which is topped up by \$20 a week to meet additional costs.
<i>Target Group:</i>	Job seekers on work-tested benefits for three months or more and ex Training Opportunities Programme trainees.
<i>Title of Scheme:</i>	Training Opportunities Programme
<i>Administering Agency:</i>	Education and Training Support Agency
<i>Description:</i>	Offers a wide range of training, from farming to retailing and literacy to computing; free of charge to eligible trainees.
<i>Target Group:</i>	Trainees must meet any <i>one</i> of the following eligibility criteria: <ol style="list-style-type: none"> 1. aged under 18 years with low qualifications. 2. aged 18-19 with low qualifications and have left school in the last 6 months. 3. registered with the New Zealand Employment Service (NZES) as an unemployed job seeker for at least 26 out of the last 39 weeks and available to work

for 20 hours or more per week and either have low qualifications or been referred to a course by NZES after an in-depth interview.

4. enrolled with *Workbridge* as an active job seeker and have been referred by them after an in-depth interview.

5. receiving the Domestic Purposes or Widows' Benefit for at least the previous year and have low qualifications.

6. a refugee who has left the Mangere Refugee Centre or entered the country in the last year and registered with the NZES.

7. an ex-prisoner who has served a sentence of 6 months or more or left prison in the last 6 months and have low qualifications and are registered with the NZES.

8. a NZES Priority Client (including Job Action and Youth Action Clients) who have no tertiary institute qualifications and have been assessed by NZES as likely to benefit from Training Opportunities.

- Trainees are not eligible for the programme once they have accumulated 240 credits or more
- Low qualifications are defined as no qualifications or a post-compulsory qualification no higher than Sixth Form Certificate and no more than two School Certificate passes

Title of Scheme:
Administering Agency:
Description:

Job Connection
New Zealand Employment Service (NZES)
Fully subsidised programme providing intensively supervised work experience in a supportive environment, for up to 6 months to help work habits and familiarisation with a current work environment.

Target Group:

Job seekers unemployed for more than 4 years.

iii) Enterprise Development:

Title of Scheme:
Administering Agency:
Description:

Enterprise Allowance
NZES
Assists job seekers into self employment by providing an income supplement in the initial stage of business establishment. The allowance of up to \$214 per week is paid for a maximum of one year. No more than \$10,000 per person, per project is paid.

	Additionally a Business Training and Advice Grant of up to \$600 may also be provided. A portion of the Enterprise Allowance may also be capitalised, up to a maximum of \$5,000.
<i>Target Group:</i>	Job seekers who have been registered for at least 15 weeks and job seekers assessed as being particularly disadvantaged in the labour market. Most recently, September 1996, eligibility criteria for the Business Training Allowance and the Enterprise Allowance has changed to being registered as unemployed for 6 months.
<i>Title of Scheme:</i>	MANA Enterprises
<i>Administering Agency:</i>	Te Puni Kokiri (Ministry of Maori Development)
<i>Description:</i>	Provides grant funding to an iwi collective with a commercially viable proposal to enable it to attract other joint venture partners or financiers.
<i>Target Group:</i>	Maori
<i>Title of Scheme:</i>	Wahine Pakari
<i>Administering Agency:</i>	Te Puni Kokiri
<i>Description:</i>	Women trainers providing training to enhance entrepreneurial, business and management skills.
<i>Target Group:</i>	Maori women
<i>Title of Scheme:</i>	Small Co-operative Enterprises Scheme (SCOPE)
<i>Administering Agency:</i>	Department of Internal Affairs: Community Development Division
<i>Description:</i>	Encourages the development of small scale co-operative business ventures for labour market disadvantaged people. Introduced in the 1980 Budget.
<i>Target Group:</i>	Long term unemployed
<i>Title of Scheme:</i>	Be Your Own Boss
<i>Administering Agency:</i>	Chiefly various small business enterprise centres. Community based organisations under contract to the Community Employment Group.
<i>Description:</i>	An integrated package providing business and enterprise skills training and support. Components include initial self employment assessment, one-to-one business facilitation, business skills courses, seminars on appropriate aspects of running a business (e.g. marketing, financing planning), assessment and business plan

Target Group: appraisal and ongoing support by a business mentor. The scheme is funded by the Community Employment Group (CEG). Unemployed and non-business wise people interested in self-employment.

Title of Scheme: Business Grow
Administering Agency: The Business Grow Network has a national trust with regional representatives.

Description: A business visitation and information advice service which aims to encourage expansion of existing businesses. Business Grow staff refer businesses to relevant agencies and professionals to assist with financial and management advice, research, training etc. The national trust is funded by CEG, Community trusts, Enterprise Centres and other sponsors.

Target Group: Existing small businesses

Title of Scheme: The Business Development Programme
Administering Agency: Ministry of Commerce and Business Development Boards (BDBs)

Description: Regional BDBs, 21 in total, administer 3 grant schemes, provide advice, referrals and encourage business development.

Target Group: Individuals and small to medium enterprises.

iv) Youth Measures:

Title of Scheme: New Zealand Conservation Corps
Administering Agency: Ministry of Youth Affairs

Description: A joint community and government programme with a work skill acquisition, conservation and personal development focus. Projects average 21 weeks. Sponsors are government agencies, community organisations, educational institutions and iwi trusts. Government covers overhead costs and the training allowance for participants.

Title of Scheme: Youth Action
Administering Agency: NZES

Description: An individualised programme of direct assistance with an initial interview followed by referral to activities which will enable employment or a direct job referral. *Job Intro* is part of the programme

Target Group: 16-20 year old job seekers who have been registered unemployed for 13 weeks or more.

(v) Other Assistance for Job Seekers:

<i>Title of Scheme:</i>	Job Action
<i>Administering Agency:</i>	NZES
<i>Description:</i>	An individualised programme of direct assistance to enable entry into the labour market.
<i>Target Group:</i>	All those registered unemployed for more than 2 years and selected job seekers (5000 each year), assessed as likely to become very long-term unemployed after 12 months of registered unemployment.
<i>Title of Scheme:</i>	COMPASS
<i>Administering Agency:</i>	New Zealand Income Support Services (NZISS)
<i>Description:</i>	A nation-wide voluntary programme where COMPASS co-ordinators help Domestic Purposes Beneficiaries develop a path towards education and training and finally employment. Clients are referred to a range of assistance.
<i>Target Group:</i>	Recipients of the Domestic Purposes Benefit

vi) Other Labour Market Programmes in the 1980s:

Prior to 1988, these were administered by the Employment and Vocational Guidance Service of the Department of Labour (DOL). Since 1988, the programmes have been administered by the NZES and the Community Employment Development Unit (CEDU) which was established within the DOL in 1990, and subsequently became the Community Employment Group (CEG). The largest scheme was the Project Employment Programme.

<i>Title of Scheme:</i>	Project Employment Programme (PEP)
<i>Description:</i>	A fully subsidised scheme providing short term work. Work offered had to be additional to an organisation's existing workload and not normally carried out by volunteer labour. The Disaster Work Scheme and Contract Work Scheme formed part of PEP. Scheme discontinued in 1987. The Contract Work Scheme which provided work for disadvantaged groups was separated from PEP in 1986 and terminated as contracts ran out.
<i>Target Group:</i>	Job seekers who were at risk at becoming long-term unemployed and unable to be placed in regular employment or in a programme offering partial subsidies.

vii) Financial Assistance (Incentives) for Labour Market Participation:

Title: Transition to Work Allowance
Description: A non taxable payment of up to \$40 per week for 13 weeks, which may be paid as a lump sum.
Administering Agency: New Zealand Income Support Services
Eligibility: Those exiting one of the main types of income support after receipt for 12 months or more, to wage or salary employment paying no more than \$20 a week of more than the amount received in income support.

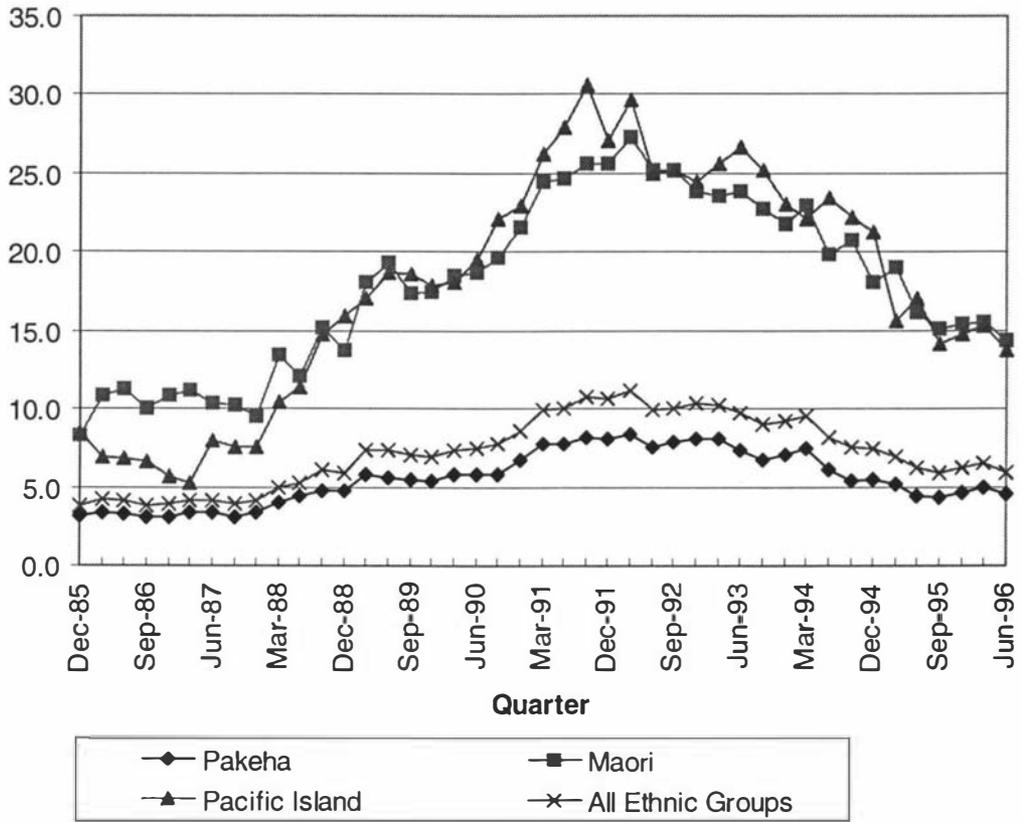
Title: Guaranteed Minimum Family Income
Description: An extra payment made to families whose income is less than \$278 after tax per week (1995/96) and increased to \$284 after the 1 July 1996 tax cuts, and where at least one parent works for salary or wages
Administering Agency: Inland Revenue Department (IRD)
Eligibility: Parents in a two parent family must be in paid employment for a combined total of at least 30 hours per week and a single parent at least 20 hours per week.

Title: Independent Family Tax Credit (IFTC)
Description: A single payment of \$15 per child per week to be phased in at \$7.50 per child per week from 1 July 1996 and rising to \$15 per child per week from 1 July 1997. The IFTC is payable in addition to Family Support for eligible families.
Administering Agency: Inland Revenue Department (IRD)
Eligibility: Families with one or more dependent children who are not receiving an income tested social security benefit, NZ Superannuation, Veteran's Pension, a student allowance or have been on ACC weekly compensation for longer than 3 months. The full amount of is available where a family's taxable income is \$20,000 or less. The amount abates at a rate of 18 cents in the \$ of family income between \$20,000-\$27,000; and by 30 cents in the \$ above \$27,000.

APPENDIX 2 - Graphs

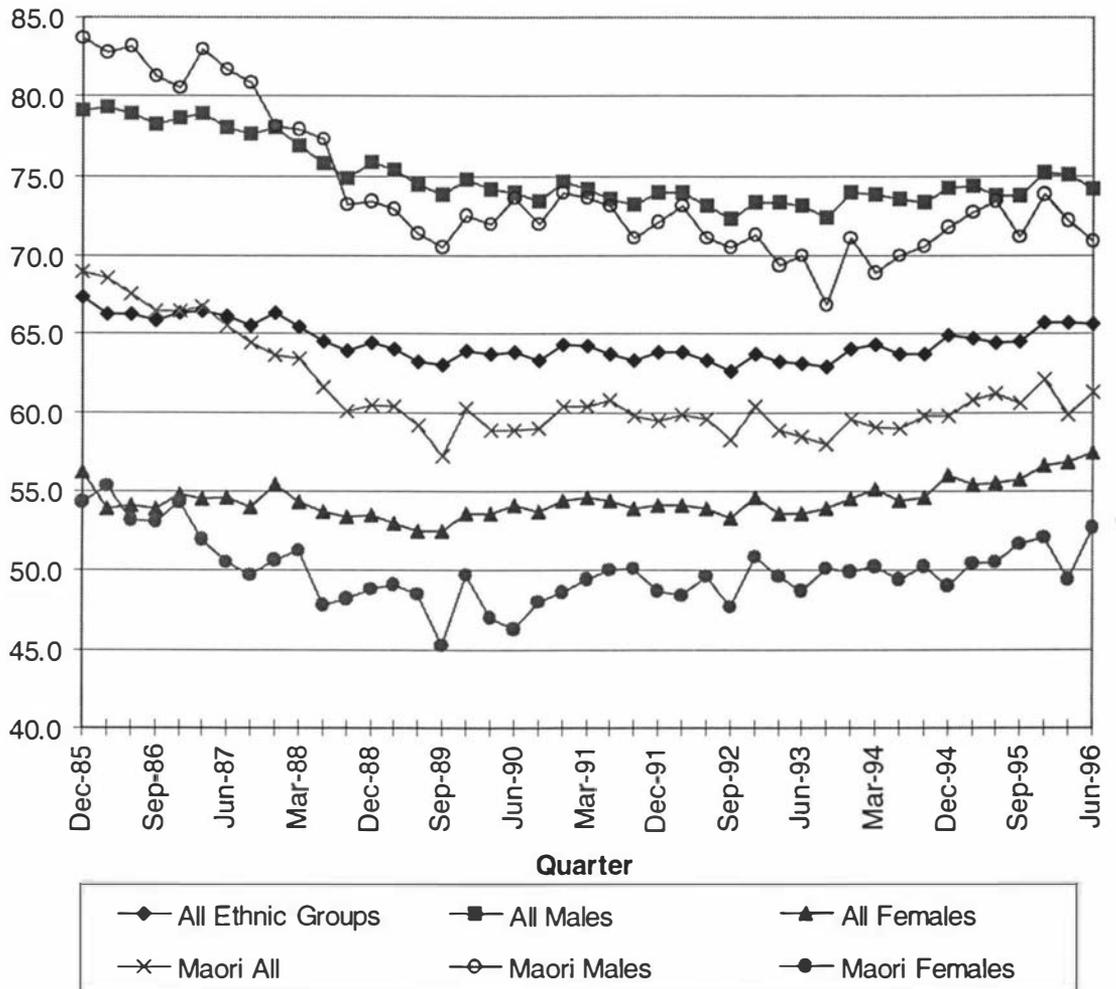
FIGURE 1

Unemployment Rates



Source: PC-INFOS HLFQ.S3F3DA, HLFQ.S3F3DB, HLFQ.S3F3DD, HLFQ.S3F3DZ.

FIGURE 2
Labour Force Participation Rates

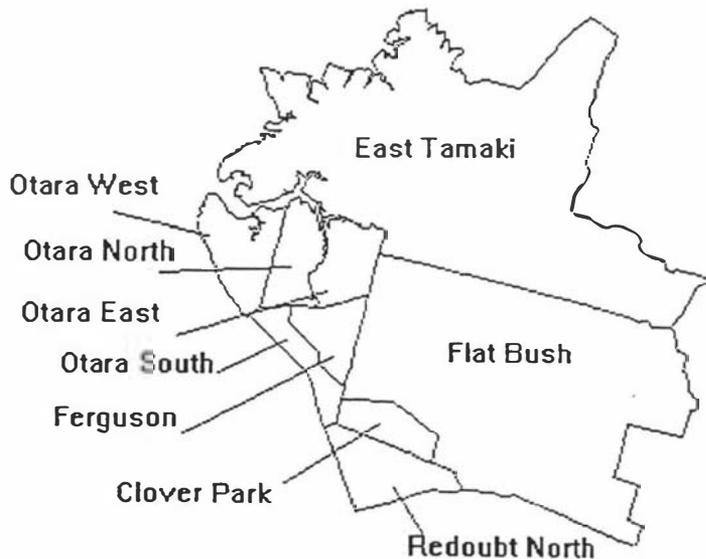


Source: PCINFOS:HLFQ.S3E3DZ,HLFQ.S3E1DZ,HLFQ.S3E2DZ,HLFQ.S3E3DB
HLFQ.S3E1DB, HLFQ.S3E2DB

APPENDIX 3 - Otara

Geographic and Demographic Details for Otara

The nine census area units of the Otara Ward are shown in the figure below. Otara is bordered on the West by Otahuhu and Papatoetoe, Manukau and Manurewa to the South, Pakuranga and Howick to the North and Whitford to the East.



Population Projection For Otara

Estimated Population

1991	1996	2001	2006	Total Increase
29,151	31,610	36,910	44,350	15,199

Notes:

1. 1991 Census ward population figures have been revised to include persons who did not specify a usual place of residence.
2. The projections provided at ward level are not exact forecasts. Rather they illustrate a future situation based on the continuation of current growth patterns in the wards of Manukau City and proposed changes to residential and future development areas in the new District Plan.

Source: Manukau City Council, Population Projections, February 1995

EXECUTIVE SUMMARY

'OTARA THE VISION' FEASIBILITY STUDY

The study assessed the feasibility of Otara as a desirable tourist destination.

Flexibility of the research methodology resulted in data gathering through semi-structured, in-depth interviews. Interviews were conducted with representatives from a range of segments of the tourism industry. In addition, domestic users of the product who were likely to entertain overseas friends and relatives were surveyed.

Overall support for the vision of Otara as a desirable tourist destination was given, but it was widely recognised that the move from a vision, to successful implementation, was problematic. Attention was drawn to previous failures of cultural initiatives.

The main advantages recognised in the Otara project were the unique multi-cultural character of the community, the ability and talent of its people and its location close to the motorway and airport. Disadvantages highlighted included Otara's negative reputation.

The preferred product package for an Otara cultural experience was a one site complex where cultural performances, food provision and the production, exhibition and sale of art and craft works could take place. The duration of the visit to this 'Otara Experience' would be approximately two hours. Limited support was given to a longer Otara visit.

Until the product becomes firmly established and tour operators see it as reliable and of outstanding quality, the in-bound package tourist will not provide an immediate market for this product. Other factors, such as the limited length of stay of package travellers also make this market a difficult one to infiltrate. This market does however, have future potential if the project is carefully implemented.

Other markets for the product exist and can be fostered. These include the conference and convention market and the family and friends international visitor market. The Otara project could also fill a recognisable product gap in the Auckland tourism market. There is also the possibility of it appealing to the domestic tourist market. Research into this latter market however, was not an object of this study.

A theme that emerged strongly in the interviews was the concern Asian tourists have with issues of safety and security. Such concerns must be appreciated.

It is recommended that immediate steps be taken to provide a purpose built cultural facility in Otara in order to show-case the cultural strengths that abound within the community. This facility should be modular in design. To enable planning and funding activities to commence as soon as possible, the formation of an Otara Cultural Centre Trust is recommended.

Every stage of the project has to be approached and implemented in a thoroughly professional manner. The product must be able to compete internationally. In this respect attention to detail is paramount.

Further recommendations include:

- the importance of establishing a close working partnership with Manukau City Council
- immediate research into a variety of fund raising strategies
- reputation building exercises should proceed, in order to build up the profile of Otara as a dynamic, creative area of Auckland and to overcome the widely held negative image of Otara.
- the implementation of a series of marketing strategies which could include: distinctive names for both the product and the centre be developed and a clearly recognisable logo. Publicity for the product should be organised e.g. postcards, brochures, internet page and promotional video.
- a high, positive media profile for the project and the cultural strengths of Otara should be pursued.

It is recommended that initially, a retail establishment, which need not necessarily be in Otara itself, but which should have a clearly identifiable Otara connection be started. The quality of the art, craft, fashions, jewellery etc. available for sale should be very high and appeal to the international market.

It is crucial that once developed, the final product must demonstrate reliability and consistency. Operators in the tourism industry have to be certain that the activities they include and endorse are always of the same high quality, international standard.

APPENDIX 4

Glossary of Maori Words and Explanations of Terminology

hapu	sub-tribe
hui	meeting
iwi	tribe
kaupapa	motto, mission statement
Kokiri Centres	Training centres for Maori (chiefly young 'non-achievers') which provide training in a traditional Maori environment. These centres became actively involved in running Department of Labour programmes such as the Project Employment Project in the 1980s (see Appendix 1). They are now important in teaching traditional Maori arts and crafts and are involved in running Training Opportunities Programme courses which include Kokiri 'Basic Skills' involving pre-employment courses and continuing education programmes.
mana	status, prestige, influence, standing, power
marae	traditional meeting place of the Maori people
Maoritanga	things that relate directly to the values and concepts of the Maori people
Runanga	iwi authority or council where decisions are made with the consent of its members.
Tangata Whenua	people of the land, local people, indigenous people
te reo	the language
whanau	family, extended family
whakatuaki	proverb; Maori proverbs were included at the beginning of chapters 5 and 7.
whahine	women
tino rangatiratanga	self determination