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Abstract

Following the implementation of a neoliberal policy regime by governments from 1984 to 1999, New Zealand’s Fifth Labour Government was elected with a clear mandate to adopt a different approach to policymaking. Although a considerable body of literature analyses and critically evaluates the neoliberal policy regime implemented by the Fourth Labour and Fourth National governments, there have been few comparable studies of the Fifth Labour Government, which maintained, but softened, the central features of the neoliberal policy regime. This thesis aims to address this gap by using a Marxist perspective to describe, explain, and critically evaluate the social and economic policy implemented by the Fifth Labour Government, focusing on the Growth and Innovation Framework (GIF). The GIF is the focus of this analysis because it was the most comprehensive statement of the Fifth Labour Government’s broad approach to economic management and policy-making.

This thesis focuses on three sets of questions. Firstly, what are the central features of the GIF? To what extent does the GIF maintain and/or modify the prevailing neoliberal agenda? This analysis of the policy framework and related literature identifies implicit neoclassical economic and political assumptions, demonstrating the extent to which the GIF is informed by neoclassical economic theory. In particular, the GIF assumes that innovation and economic growth are related and while some government intervention in the form of basic funding of research and development (R&D) is required, innovation is best generated by market forces. Although the neoliberal policy regime has been softened in some respects by adjustments to social policy, it does not constitute a new direction in policymaking to the extent claimed by the Government’s intellectual supporters.

Secondly, which class-based interest groups were most influential in the formation of the policy framework and why? What does this suggest about the relationship between these class-based interest groups and the Fifth Labour Government? To what extent does the policy framework reflect the interests of the various classes that constitute New Zealand society? To what extent does it favour different groups according to gender and ethnicity? The thesis examines the consultation process that resulted in the GIF, revealing that the components of the GIF most likely to have a direct impact on the lives of New Zealanders were left off the agenda of the public consultation process. In addition, analysis of key policy documents, media reports, and interviews with key political actors furnish considerable insights into the motivations and interests of groups involved in the policymaking process either directly or in their lobbying activities. Results indicate that the state in contemporary New Zealand society is disproportionately influenced
by business interests. Although some concessions have been made to the working class, ultimately these concessions are the result of a concerted effort to pressure the state into offering compromise.

Thirdly, and most importantly, what impact did the GIF have on the economic and social conditions in which New Zealanders live? In particular, what impact did this framework have on economic growth and social inequality? The stated GIF goal of achieving economic growth that would put the New Zealand economy in the top half of the OECD by 2011 was not reached, although more moderate economic growth can be attributed to a limited extent to the GIF. While the social policy measures introduced by the Fifth Labour Government did improve the circumstances of some New Zealanders, this was by no means a universal experience, and positive outcomes were divided in terms of class and ethnicity. The retention of the neoliberal macroeconomic policy framework was combined with some social policy initiatives, particularly Working for Families. This has slowed the rate of growing inequality generated during the 1980s and 1990s, but the trend has continued.

The Marxist approach adopted in this study explains these outcomes by allowing us to view the Fifth Labour Government’s GIF through the lens of class politics. It helps us to appreciate how policy and policy frameworks are shaped by broader patterns of material history. The Fifth Labour Government presented itself as representing “modern social democracy” in the aftermath of the neoliberal experiment. Rather than responding to the political mandate granted by voters in the 1999 election to the Government to reject the neoliberal policies adopted since 1984, the thesis presents compelling evidence that the Fifth Labour Government’s actions disproportionately favoured business. Ultimately, although limited headway was made in social policy, the divide between the rich and the poor that was created by the neoliberal reforms of the 1980s and 1990s has not been reversed. This thesis argues that the Fifth Labour Government failed to move substantially away from the neoliberal policy agenda and while the GIF enjoyed moderate success, the economic growth and social progress promised in the GIF document was not achieved.
Acknowledgements

When a project takes as long as this PhD thesis, it is sometimes difficult to write acknowledgements without seeming as if you are thanking everyone you have ever met. The truth is, a wide range of very special people helped me in an array of ways along this journey, and it is impossible to narrow this list down further.

Firstly, I must mention my supervisors. My primary supervisor, Dr. Brian Roper, has supervised me for many years through an Honours dissertation, a Master of Arts thesis and now a PhD thesis. I have learned a lot from Brian over the years, but perhaps the most influential moment took place in his Stage Two Policy Studies paper (POLS 203) in 1997, which blew my mind open and started filling in some of the gaps: it was my introduction to political economy and Marxism. It inspired me so much I spent my summers before becoming a thesis student designing and working on extracurricular research projects for fun. That experience opened a vault of ideas for me, and inspires me to hopefully have an impact like that on even one student, intellectually and politically, in my time as a lecturer. Professor Philip Nel, my secondary supervisor, arrived later at the University of Otago before I started my doctoral studies. I tutored and worked as a research assistant for him and have learnt a great deal from him also: in particular, lessons in how to approach placing my argument in more mainstream terms. I thank both of them for their contributions to this thesis.

My partner David Atkinson has watched me finish my MA and then embark on this journey, and since the beginning he has given me practical help (proofreading, transcribing and technical brainstorming), but he has also told me the truth about how he sees it from the outside (mainly in a gentle way), especially when he sees my obstinacy sabotaging rather than serving me. He has high expectations, coming from a family of academics and understanding at least in part what it is all about. But even when I am really stuffing things up he continues to show faith in me and my abilities. That is why he is the person I want to spend the rest of my life with. He also makes me laugh, when we are not swearing at the radio together (for international readers, John Key’s Fifth National Government was elected to power in New Zealand in 2008, which has increased the intensity of the swearing tenfold).

My parents, Helen and Roly Hayes, have always encouraged me and not prescribed a direction apart from assuming I would go to university. My Mum has given me some great life skills useful for research and writing, like the “just work for ten minutes, you can always stop then but you might decide to keep going” instigated during a particularly traumatic sixth form Accounting assignment. I use this trick regularly,
along with many others of hers. As a young undergraduate, I shyly mentioned to Dad that maybe I could consider doing a Masters, and it meant a lot to me that he said “of course you can, but don’t limit yourself, do a PhD if you want to, but only if that’s what you want to do”.

Family is very important to me, and between my three sisters, their husbands, my nieces and nephews, as well as my out-law in-laws, I have been very well looked after with people to talk to, advise, give me perspective, comfort, remind me of my desire to be a mum so hurry up and finish: all of the honesty that family gives you, if you are lucky. Thanks to Bruce, Elleweis, Kate, Luke, Zach, Mia, Eva, Sarah, Daniel, Joel, Rohan, Julie, Jonno, Jacob, Daph, Don, Mayo, John, Berenice, Chris, Morgan, Margie, Kim, Alma, Holly, Violet, and last but not least, my step-daughter Ava and god-daughter Sophie. While they are way too numerous to mention, I must also acknowledge my aunts, uncles and cousins, especially those in Auckland that have been so supportive during the final stages of this process.

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Finally, it is absolutely essential that I extend my most gracious thanks to those who participated in interviews for this thesis. As is evident from the text, some are on the record and some have chosen to remain unidentified: both are equally valuable and have contributed greatly to the project. Their generous offers of time and their willingness to share their reflections on the subject of the thesis served as a much-needed reminder of the importance of the topic. Thank you!

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I received an Auckland University of Technology Vice Chancellor’s Doctoral Completion Award which gave me a semester free from teaching in order to focus on the submission of my PhD thesis. This is an excellent scheme for permanent academic staff which I continue to unreservedly endorse. I also acknowledge the support of my colleagues in the Centre for Business Interdisciplinary Studies, part of the Faculty of Business and Law at Auckland University of Technology.

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My grandmother, Hettie Margaret Hayes, who kept picking herself up and carrying on, no matter what knocked her down.

Rather than end on a sad note, I have included a line from an updated version of Mark Steel’s Lecture Series on Marx that is relevant to the theme of this thesis.

Steel considers the argument that Marx’s ideas cannot be of relevance in modern society because they are outdated. Describing a hypothetical dinner party scene at Tony Blair’s house, a parallel is made to the theory of gravity:

“"You don’t believe that old gravity nonsense do you? Sir Isaac Newtown? That’s three hundred years ago! Just throw your wine glasses into the air: they won’t fall, they won’t float, they’ll find a Third Way into the dishwasher!””

Steel, M., 2002, The Mark Steel Lectures - Volume 1, British Broadcasting Corporation, United Kingdom.
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<td>Association of University Staff</td>
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<td>AHC</td>
<td>After Housing Costs</td>
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<tr>
<td>BHC</td>
<td>Before Housing Costs</td>
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<td>CRIs</td>
<td>Crown Research Institutes</td>
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<td>DSIR</td>
<td>Department of Science and Industrial Research</td>
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<td>ECA</td>
<td>Employment Contracts Act 1991</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EFTS</td>
<td>Equivalent Full Time Students</td>
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<td>EMPU</td>
<td>Engineering, Printing and Manufacturing Union</td>
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<td>ERA</td>
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<td>FoRST</td>
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<td>GST</td>
<td>Goods and Services Tax</td>
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<td>HES</td>
<td>Household Economic Survey</td>
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<td>ICT</td>
<td>Information and communication technologies</td>
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<td>ILO</td>
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<td>intellectual property rights</td>
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<td>MFAT</td>
<td>Ministry for Foreign Affairs and Trade</td>
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<td>MMP</td>
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<td>MoRST</td>
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Introduction

Through the post-war long boom, social democratic governments in the advanced capitalist economies operated within the paradigmatic dominance of Keynesian demand management economics, which accorded the state a role in the management of national economies that was unknown in the pre-Second World War period. This was an era in which a great many of the developed nations managed both to maintain prosperous, stable, and growing economies and to extend the capacity of state agencies to provide goods and services in the name of the public good. In the early 1970s, however, the advanced capitalist economies found themselves in crisis. Declining productivity, rising inflation, mass unemployment, and slowing economic growth reflected new contradictions in these economies, which engendered political and industrial unrest and a ‘profit-squeeze’ that curtailed the willingness of firms to invest. This crisis set the scene for the transition from social democratic Keynesianism to neoliberalism in the advanced capitalist economies. In New Zealand it provided the environment in which the Fifth Labour Government (1999-2006) sought to both invigorate the competitiveness of the national economy and ensure that at least elements of the working class of New Zealand benefited from this effort and thus continued to accord electoral support to the Labour Party. For this reason, the post-war era provides a useful period of recent historical contrast for this thesis. The thesis aims to evaluate the extent to which the Fifth Labour Government continued with and/or departed from the previous emphasis on supply-side economics that underpinned the neoliberal experiment implemented in New Zealand from 1984 in order to assess the extent to which policy-making in contemporary New Zealand is influenced by the underlying balance of class forces. As part of this assessment, the thesis will examine the outcomes of the policy programme embraced by the Fifth Labour Government in terms of lifting New Zealand’s economic competitiveness, and
the implications of the policy programme for class-based material interests. In short, the thesis asks how did this policy framework impact positively or negatively on different groups in New Zealand society?

To assist realisation of the goals of the thesis this Introduction is structured as follows. Firstly, the international ideological shift from social democratic values and the Keynesian approach to demand management economics to the ideas of neoliberalism and supply-side economics will be introduced, and described briefly in the New Zealand context. Secondly, a core contention of this thesis is that a primary cause of the shifting political economy was the collapse of post-war prosperity that emerged in the form of economic crisis in the mid-1970s, because the New Zealand economy became globally less competitive and consequently to an increasing extent the state needed to turn from demand management to the enhancement of national and enterprise productivity. While governments around the world have portrayed themselves as having moved on from neoliberalism, the reality is that neoliberalism and the associated supply-side economic ideas remain intellectually and politically dominant, even though the exact form they have taken may have been modified over time. This thesis is concerned with explaining the specific form that neoliberalism took under the Fifth Labour Government from 1999 to 2006, and does so by focussing attention on the policy document, *Growing an Innovative New Zealand*, which sets out the Government’s ‘Growth and Innovation Framework’ (hereafter GIF). The GIF is the most comprehensive statement of the Government’s strategy for economic and social development, and therefore is a most useful focus for critically analysing the extent to which the Government remained committed to supply-side economics and neoliberal values, as well as the extent to which they deviated from this agenda, and for this reason, it is the core focus of this thesis. Thirdly, precisely because it is the subject of
the thesis, an overview of the GIF document is provided, in the form of an introduction to its general approach to lifting New Zealand’s productivity and competitive edge, and outlining the scope of the policy areas it covers. Finally, the Introduction will conclude with an overview of each of the Chapters that form the body of the thesis.

The economic crisis of the 1970s prompted an ideological shift that took a range of forms, but in essence involved a diminution of the notion that governments should act as agents that provide for the needs of the population and business enterprises, and an acceptance that states should seek to guide the economy and society in desired directions by strengthening the role of market forces and the capacity of firms and workers to compete in the market place. As Harvey observes, this neoliberal agenda strives to manage the economy and society by maximising “entrepreneurial freedoms within an institutional framework characterized by private property rights, individual liberty, free markets and free trade... [and in which the] role of the state is to create and preserve an institutional framework appropriate to such practices.”

Neoliberal ideas were enthusiastically advocated by adherents of Friedrich Hayek through the post-war years but only began to be taken up by mainstream theorists and policy makers in the 1970s. As this take-up unfolded the principles of liberalism were embraced and/or imposed across the OECD and the developing world. New Zealand was no exception to the general trend. Indeed, a decidedly robust form of neoliberalism was rapidly and comprehensively implemented in New Zealand from 1984. The first stage of this initiative was undertaken by the Fourth Labour Government (1984 to 1990) which embraced policies that were in sharp

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contrast to the Labour Party’s historical record as a party for the working class and of the Left. Immediately after the 1984 election, the new Government introduced a neoliberal economic programme that had been advocated by the incoming Minister of Finance Roger Douglas since 1980 but which had not been revealed to the electorate.

Douglas’ initial agenda included the deregulation of financial markets, the floating of the exchange rate, replacing controls on prices, wages, and interest rates, a monetarist approach to price stability, and the opening of the nation’s firms to international competition through the reduction of tariffs, import controls and the removal of licensing and subsidies for domestic producers, most significantly affecting agriculture and the manufacturing sectors.

The foregoing policies were designed to increase national efficiency and competitiveness and were welcomed by key sectors of the business community, though this positive reception did not extend to those manufacturing employers whose firms were dependent on tariffs and other forms of state protection. This diverse response within the capitalist class largely explains why the previous National Government had not introduced the efficiency oriented reforms unfolded by Labour through its first term. This would have been an extremely difficult exercise for the National Party as much of its economic and social support was provided by business interests that were dependent on high levels of protectionism and other forms of state support. This was less the case for the new Labour Government, though what was

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problematic was Labour’s capacity to introduce the more regressive personal and corporate taxation regime favoured by the business community and by Roger Douglas. Accordingly, it was largely left to the National Government that replaced Labour in office in 1990 to extend the neoliberal agenda through to 1999 by introducing reforms that more directly undermined working class interests. These developments included the introduction of the Employment Contracts Act 1991 which was designed to radically undermine the bargaining power of organised labour and the slashing of welfare spending: the historic moment in this respect being the so-called “Mother of all Budgets” of 1991, in which all benefit rates were cut by up to 20 percent. This was in direct contrast to National’s 1990 election promises to pursue employment expansion and their campaign slogan which was “creating a decent society”, and was followed by widespread political protest.6

The National Government’s policies led directly to increased income inequality and a reduction in living standards for many of those on lower incomes. These cuts in spending also led to increased social deprivation amongst the most vulnerable and had a disproportionate impact on Māori, women, youth, the elderly, and families and children.7 Despite these negative consequences, New Zealand’s robust neoliberal experiment was lauded internationally by proponents of neoliberalism such as the OECD and The Economist and was judged of sufficient interest to warrant a major

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article in the *Journal of Economic Literature*. These outlets presented the radical programme that unfolded in New Zealand under the Labour and National Governments through to 1999 as a success story, and advanced little critical commentary.

By the late 1990s the foregoing was not a perspective that was shared by the New Zealand electorate and in 1999 New Zealand’s Fifth Labour Government was elected with a clear mandate to embrace a social policy agenda that would have appeal to its working class base. This was the challenge that Labour sought to promote while continuing to advance a programme that remained decidedly neoliberal. That this was the case was documented most effectively in a document released by the Office of the Prime Minister in February 2002 called *Growing An Innovative New Zealand* (GAINZ) which spelt out the GIF: that is, the policy framework that the Government was to progress and further develop through its first two terms. This framework retained aspects of the neoliberal macro and microeconomic model that were intended to promote national efficiency and competitiveness but moderated parts of the social agenda that had been introduced by the previous National Government. It is the contention of this thesis that this modification was made possible by the fact that the balance of class forces in New Zealand had evolved in ways that required the Labour Party to promise to curtail a number of the more anti-working class elements of the neoliberal agenda that were favoured by both the National Party and some previous Labour ministers. This requirement was reflected

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10 This thesis covers the first two terms of the Fifth Labour Government from 1999 to 2006, as the GIF was formally abandoned in February 2006 in favour of a reframed but similar policy framework called “Economic Transformation”.

in the growth of parties to the left of Labour, a process made manifest in the 1999 election when ‘left’ parties won 66 seats (or 55 percent of the seats in Parliament) compared to the 48 seats won (or 40 percent of the available seats) gained by the parties on the right and by the fact that over a quarter of the seats gained by the left were won by the Alliance and Green parties: that is, by parties that had extensively critiqued the neoliberal agenda of both the National and Labour Parties. However, despite these modifications to the neoliberal model, it is important to emphasise that the supply-side approach to economics was retained, and that the election of the Fifth Labour Government did not lead to the renewal of social democracy.

Lavelle makes a compelling argument that the end of the post-war era of high growth undermined the economic base on which the ongoing profitable accumulation of capital was founded through the period of the ‘long-boom’, and in the process eroded governments’ ability to pursue policies that would reduce social inequality. With the countries of the OECD entering a period of stagnation, he adds, governments’ ability to introduce and carry through substantial reforms that favour the working class was ended. Lavelle holds that while many commentators focus on factors such as ideological trends, the impact of globalisation and electoral factors, to fully explain these developments it was in fact the end of the post-war boom that created an environment in which neoliberal ideas became readily accepted. In other

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11 It should be noted that the Mixed Member Proportional (MMP) voting system was introduced in New Zealand from the 1996 general election, which provided a climate which encouraged the growth of small parties along the political spectrum, as it became possible for a smaller party to achieve more representation in Parliament. This is discussed in more detail in Chapter Three.


13 Ibid., pp 1–2 & 8–9.

words, he attributes the “death of social democracy” primarily to the fact that the end of the boom eroded the ability of governments to finance progressive social welfare. Recent history supports this perspective, because even where voters have chosen to elect political parties that are ostensibly of the left, these parties have retained many elements of the neoliberal policy regime and portrayed this agenda as one of “modernising” social democracy. By focusing on the Fifth Labour Government that came to office in 1999, this thesis explains the retention of neoliberalism in New Zealand and in so doing assesses Lavelle’s argument in the New Zealand context.

In an article published in 2011, Hall considers the dominance of neoliberal ideas in the contemporary political situation in Britain, and introduces a useful way of looking at contemporary policy issues by discussing the continuities and discontinuities in what we now identify as neoliberal ideas over the last few hundred years.\textsuperscript{15} The article ranges from discussing the roots of neoliberalism in classical liberal thought, to the challenges posed to those ideas by various revolutionary movements, to economic crises (in particular, the Great Depression and the collapse of the post-war long boom), to various responses to these crises (the rise of the social democratic Keynesian welfare state versus Thatcherism), to contemporary policy questions facing countries today, including an assessment that society has become compartmentalised on much more individual terms, which he attributes to the dominant influence of neoliberalism. But his key point is not just that the neoliberals have (currently) won: rather, that ideas are in constant flux and are continually being challenged, and he invokes Gramsci pointing out that:

\begin{quote}
 though the economic can never be forgotten, conjunctural crises are never solely economic or economically determined ‘in the last instance’. They
\end{quote}

arise when a number of forces and contradictions, which are at work in different key practices and sites in a social formation, come together or ‘con-join’ in the same moment and political space and, as Althusser said, ‘fuse in a ruptural unity’.\textsuperscript{16}

In other words, we have seen (neo)liberal and other ideas appear at different times throughout history, but in various historical, geo-political and economic contexts, they have been countered to a greater or lesser degree by other contending ideas. The point is, that while at this point in history neoliberal ideas retain dominance in many contexts, because of these changing factors and influences, Hall reminds us that neoliberalism takes the form of what he terms “variants”:

Neo-liberalism is, therefore, not one thing. It combines with other models, modifying them. It borrows, evolves and diversifies. It is constantly ‘in process’. We are talking here, then, about a long-term tendency and not about a teleological destination. Nevertheless, geo-politically, neo-liberal ideas, policies and strategies are incrementally gaining ground globally, re-defining the political, social and economic models and the governing strategies, and setting the pace.\textsuperscript{17}

For this thesis, the point to be taken from Hall’s observation is that there were both continuities and discontinuities between different governments implementing neoliberal ideas in New Zealand from 1984, including the Fifth Labour Government’s first two terms which are the subject of this thesis, which examines the explanatory factors that made the Fifth Labour Government’s variant of neoliberalism take the particular form that it did.

While there are a number of studies that have evaluated specific policies or policy portfolios implemented by the Fifth Labour Government, there is very little in the way of research that has attempted to critically evaluate the extent to which the


\textsuperscript{17} Hall, S., 2011, “The Neo-Liberal Revolution”, p 708.
Government’s overall strategy with respect to economic and social development constituted a move away from the form of neoliberalism that unfolded in New Zealand prior to 1999. The thesis is informed by the notion of social class and draws on the Marxist theoretical literature relating to class conflict and the tendency for the rate of profit to decline unless it is adequately countervailed. With specific reference to New Zealand, the most useful contribution to the class theme of the thesis as a whole is the work of Roper: in particular his 2006 article in Kōtuitui: New Zealand Journal of Social Sciences Online, which provides a class focused analysis of the period in which the Fifth Labour Government was in office by documenting and analysing the political activities of business associations. In international terms, this thesis supports the body of Marxist work that highlights the extent to which so-called social democratic governments have embraced neoliberalism and at best have made minor modifications to this model while leaving the core of the neoliberal project unquestioned, a development which in New Zealand was largely supported by the Green Party. In brief, this thesis aims to contribute to the broader international debate on the future of social democracy by using the 2002 GIF document to analyse the variant of neoliberalism that Labour and its allies put forward and implemented through the years 1999-2006.

It is important to note two restrictions to the scope of this thesis. Firstly, while comparative work, such as Lavelle’s, provides a valuable understanding by identifying clear patterns of similarity and difference between countries, this thesis is limited to the experience of a single social democratic government during their time in

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office in New Zealand from 1999 to 2006. It addresses the core research question by providing a detailed empirical investigation of the neoliberal underpinnings of this Government’s economic strategy and social policy reforms, and how these policies were modified by the shifting balance of class forces. This is considerable ground to cover in a doctoral thesis, which is why the approach is not comparative. It is intended that in the future some of the conclusions will be incorporated into the comparative work on social democracy and neoliberalism. Secondly, the project is largely confined to the first two terms of the Fifth Labour Government (1999 to 2006) because this is the period over which the GIF was formulated and implemented.

The underlying assumption of the GIF was that New Zealand needed to enhance economic growth and that a key to furthering this objective is the increased competitiveness made possible by productivity and innovation, the expansion of which is to be systematically encouraged and institutionalised. However, there are multiple ways to promote both innovation and productivity growth and how this is done reveals implicit macroeconomic assumptions that have policy implications. A careful examination of the intellectual underpinnings of the GIF policy agenda reveals the extent to which it rests on neoliberal rather than social democratic principles (and, it could be argued, represents different policy agendas more or less associated with class interests in material terms). It is a core contention of this thesis that the interests of capital disproportionately influence policy formulation in capitalist societies. The Science and Innovation Advisory Council (SIAC) was established to coordinate the consultation process that ultimately resulted in the GIF. It is advanced that the SIAC consultation process constitutes a good example of how questions with the most far-

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19 A general election was held in New Zealand in 2005, not 2006. However, the Fifth Labour Government formally abandoned the GIF approach in 2006, which is the reason the thesis considers the period from 1999 to 2006.
reaching consequences can be left off the policy agenda entirely if this is judged necessary to satisfy the needs of the capitalist accumulation process. In the case of the GIF, these unasked questions were about whether to retain the neoliberal macro and microeconomic approach to core policies - those policies with the most potential to affect the class-based distribution of income, and therefore the living standards of different groups of New Zealanders. The focus on innovation and competitiveness did not question how the benefits generated by innovation and enhanced competitiveness in international markets were to be distributed in an environment in which innovation is largely carried out within businesses that legally retain the right to the profitable outputs of their activities.

As the GIF has been chosen as the central focus of this thesis because it is the most comprehensive expression of the Fifth Labour Government’s approach to economic management and policy making, it makes sense to provide some explanation of the GIF itself at this early stage of the thesis. The GIF was developed over the Government’s first term and announced officially in February 2002 in the policy document Growing an Innovative New Zealand (hereafter GAINZ). The GIF was released by the Office of the Prime Minister rather than a specific ministry, reflecting the status of the framework as a centrally driven whole-of-government approach, providing a “shared vision”. This is illustrated in the Foreword to GAINZ, written by Prime Minister Helen Clark:

It is not a detailed set of goals and targets, but it sets out the clear direction which the government intends to follow. It sets out a vision we can all share. Together we can build the momentum for an economic success story delivering for all New Zealanders the standards of living to which we aspire.20

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The GIF document is 63 pages, and is divided into three sections describing the vision and economic objective, the framework itself, and finally a section on implementation. The section setting out the “vision and economic objective” describes the problems New Zealand needs to overcome if the country is to achieve the incomes that characterised the countries of North America and much of Western Europe. To highlight the difficulties entailed in progressing this goal the GAINZ document compares New Zealand to Helsinki, and points out that if one draws a circle of 2200 kilometre radius centred on Wellington and another centred on Helsinki, the Wellington loop would capture 3.8 million people (then the population of New Zealand) whereas the one centred on Helsinki would capture 300 million people from 39 countries.\textsuperscript{21} To overcome the problem of distance from markets, the framework argues that New Zealand needs to become more globally connected and integrated into the global economy. Specifically, the objective of the framework is to lift national productivity and competitiveness and by so doing raise real per capita income to the top half of the OECD by 2011 and maintain it at that level. The GAINZ document acknowledges that many New Zealand businesses have increased their export activities and that this has occurred both within and beyond the primary sector. However, increased exports have tended to be concentrated in a limited range of industries and have not been sufficient to substantially lift the rate of economic growth.\textsuperscript{22} A key message in the document is that while primary production has always been innovative, New Zealand needs to encourage other sectors to embrace innovation and become globally competitive.\textsuperscript{23} The document identifies several difficulties that need to be addressed if this goal is to be achieved: namely, relatively

\textsuperscript{21} GAINZ, p 15. It is interesting to note that if the Wellington circle was extended by 27 kilometres, it would capture the approximately 4.4 million people that comprise the population of Sydney.

\textsuperscript{22} GAINZ, pp 15–17.

\textsuperscript{23} Ibid., pp 14–15.
low (by OECD standards) spending on R&D, problems in commercialising ideas barriers to investing offshore, and a lack of venture capital and associated expertise.\textsuperscript{24} The document sets out the role of government in encouraging innovation as proactive, in contrast to the emphasis on market facilitation that had been embraced by Labour and National governments from 1984 to 1999.

Section Two of the GAINZ document sets out the Framework itself which is divided into two parts: “Strengthening the Foundations” and “Building Effective Innovation”. “Strengthening the Foundations” endorses many of the already existing structural characteristics of the New Zealand economy, and identifies small scale social reforms needed to alleviate some of the more negative effects that fifteen years of neoliberalism had imposed on the working class and society’s most vulnerable. There are five elements to this foundation: a stable macroeconomic framework, an open, competitive micro-economy, a modern cohesive society, a healthy population, and sound environmental management. This section indicates both a commitment to the market and an attempt to highlight to the reader that the Government was intending to promote social cohesion through elements of social policy. These elements will be examined in more detail in Chapter Six of the thesis, but in the meantime, it is sufficient to say that this section reflects a commitment to a lightly regulated microeconomy (pp 27-8) but with the addition of key reforms in the areas of social policy, health, and the environment.

The part of GAINZ entitled “Building Effective Innovation” identifies four specific strategies. These are enhancing the innovation framework, developing skills and talent, increasing global connectedness, and focusing government resources.

\textsuperscript{24} Ibid., p 17.
These strategies are intended to address the significant issues for the New Zealand economy identified in the first section of GAINZ discussed above, including increasing the commercialisation of research activities, developing education and training to support a knowledge-based economy, and integrating New Zealand’s economy into the global economy. The final strategy identifies three sectors that the Government planned to target: biotechnology, information and communication technology (ICTs), and creative industries. An important point to note about section two of the document is that it sets out individual policies that fall under a number of different areas of Ministerial responsibility. This reflects the fact that the framework was envisaged as entailing a whole-of-government approach though with strong leadership by the Executive.\textsuperscript{25} The policies included in the GAINZ document are considered, for the purposes of this thesis, to constitute the GIF, and will be examined in some detail in Chapters Five and Six.

The final section of the document is concerned with the implementation of the framework. It lists some key steps to be made, including the establishment of taskforces for the three sectors chosen for specific support, strategies for those sectors coordinated by the Ministry for Economic Development, and the appointment of an Advisory Board to monitor the framework and report to the Government. There are strong references to the potential involvement of the private sector, an idea that will be explored in more depth in Chapters Three and Four.

One final point needs to be made at this stage of the analysis. The Fifth Labour Government followed fifteen years of radical restructuring that fundamentally altered the character of the New Zealand economy and the fabric of New Zealand society, a

\textsuperscript{25} Ibid., p 22.
process that is outlined in the latter part of Chapter Two of the thesis. It is argued that despite having been given a strong mandate to change direction, in many ways the Fifth Labour Government softened but retained the neoliberal policy regime. The GIF clearly expresses the overall agenda the Government had for New Zealand which was to enhance competitiveness while concomitantly ensuring that the Labour Party’s working class base gained from this effort. This is not to refute the fact that some significant policy changes occurred, particularly in the area of social policy. Rather, the GIF represents a commitment to aspects of a neoclassical approach to economic growth and social development. This commitment is described well in the GAINZ document:

This is a different role from that of the heavily interventionist government action observed before 1984. The government does not propose to rely on ownership stakes or on regulation and tax breaks to transform the economy. This is a market led approach to economic development, not one that is centrally planned. The intention is to unleash the productive potential of the private sector not to replace it.26

One of the central objectives of this thesis is to establish the extent to which the market oriented approach of the Fifth Labour Government sought to ensure that the working class gained from the neoliberal policy programme that it continued to support. The GAINZ document gives us a starting point for this critical analysis, integrated around the inextricably linked three themes of economy, state, and society.

To clarify if the New Zealand experience supports Lavelle’s argument that social democratic parties have lost/diminished their ability to successfully promote policies that enhance social equality, the thesis is divided into three parts. The central objective of Part One is to establish the theoretical and methodological approach taken in this

26 Ibid., p 22.
study, and outline the historical context for the GIF. The core historical background that is required for this purpose is a discussion of the ideological shift from a social democratic programme based on Keynesian demand management to neoliberal supply-side economics that occurred in response to the emerging economic crisis of the early 1970s. Part One is divided into two chapters. Chapter One outlines the theoretical framework of Marx’s critique of capitalism. Capitalist society is characterised by exploitative class relations, ongoing class struggle, and a tendency for the rate of profit to fall if this process is not sufficiently countervailed. In economic terms, the underlying contradiction in the logic of capitalist production results in the erosion of profitability and a tendency towards economic crises. While capitalism contains this underlying tendency, it also contains a great capacity for reinvention: hence, the existence of counterveiling tendencies, the balance of class forces and the nature of the class struggle all provide a complex set of circumstances in which the state is situated to act. The state is not merely an instrument of class rule but retains some circumscribed autonomy, allowing it to act occasionally in the interests of social groups other than general capital, and is shaped by the shifting balance of class forces. This provides the theoretical tools with which to begin to consider the constraints that faced the Fifth Labour Government in determining their public policy settings. The chapter then develops the methodological foundations of the thesis’s critical investigation into the Fifth Labour Government’s GIF. It discusses specific methodologies employed in the thesis and outlines principles of critical realist methodology, which serve as a reminder of the limitations of any social science research project as they deal with complex structural tendencies. Observed social phenomena have a multitude of underlying explanatory factors and this thesis does not assume to account for every such structural tendency or factor.
Chapter Two outlines New Zealand’s post-war political-economic history and the shift from an emphasis on social democratic demand management to neoliberal supply side economic policies and programmes. While it is true that this experience was not limited to New Zealand, the introduction of neoliberalism to New Zealand was of a particularly robust form as is outlined in the article from the *Journal of Economic Literature* mentioned above, a key feature of which is described as providing “stable policies rather than stabilization policies”\(^\text{27}\): that is, in conjunction with deregulated markets, a programme of macroeconomic stability so that economic actors (but firms in particular, or the supply side) can act with a degree of certainty about the outcomes of their investment and other economic decisions due to what has been described as “time consistency”.\(^\text{28}\) As outlined above, this was continued and extended through the 1990s by a programme of radically punitive reductions in social welfare provision and the slashing of social services by the Fourth National Government. The chapter then describes the 1999 election victory in which the Fifth Labour Government was elected with a strong mandate to return to social democratic principles, but which instead continued to implement a modified version of the neoliberal regime presented as “modern” social democracy, as this thesis demonstrates. The chapter draws on Marxist analysis to explain the turn of social democrats to neoliberalism through the OECD from the early 1970s and how the neoliberal agenda subsequently evolved. While some political actors and commentators have applied the term “Third Way” to the “post-neoliberal” period of policy making, this thesis argues that in many contexts, but specifically in the New Zealand case, policy making by subsequent social democratic parties has largely remained aligned with the neoliberal political space, albeit with some modification to appease their constituencies (hence the application of what Hall terms “variants” of


\[^{28}\text{Ibid., pp 1862–3.}\]
neoliberalism outlined above).\textsuperscript{29} Central to this discussion is the manner in which social democratic parties addressed the end of the long post-war economic boom, why the turn to enhancing productivity growth rather than managing the level of demand became of primary significance to the state, and how social democrats have sought to address the distribution of wealth. Explanations for this commitment to neoliberal policy settings are explored through the thesis, including those offered by Lavelle, Callinicos and Hall.\textsuperscript{30}

Part Two forms the bulk of the thesis, with four chapters analysing the formulation, implementation, and intellectual underpinnings of the GIF itself. Chapter Three is broadly concerned with the wider context in which the Fifth Labour Government and associated bureaucratic agencies negotiated the political terrain after the 1999 election and developed its economic strategy. Consideration is given to the increasing emphasis on the knowledge economy and innovation that has characterised what some call the ‘post-industrial’ era. In this context, policies to support science and innovation were not immune from the shift to neoliberalism prior to 1999. The historical positioning of the New Zealand Labour Party is also important, and it helps to place the 1999 election result and other political parties into historical context, as they represent competing classes, and subsequently, different sets of material interests. More specifically, within the Fifth Labour Government the economic and social strategy for New Zealand was formulated. This story is developed by studying commentary from key political actors, drawn from publications, media commentary, submissions, and interview data.

Chapter Four examines the specific consultation process that resulted in the GIF. The establishment of SIAC and the process of generating feedback are considered in detail. Submissions from a range of interest groups are examined, revealing their class-based allegiances. The value of the consultation process was limited because the entrenchment of neoliberalism meant that core elements of the GIF were left off the consultation agenda, despite their potential to dramatically change the fabric of New Zealand society.

Chapters Five and Six examine the intellectual and political underpinnings of the GIF itself, finding them to be largely, but not exclusively, informed by supply side economics. The main features of the GIF (listed as individual policies in GAINZ) are examined in turn and considered in light of the pro-business orientation of the state in New Zealand society. Chapter Five considers the policies listed in the GIF that are specifically related to innovation, and finds that they are largely underpinned by neoclassical economic assumptions about the operation of markets and the subsequent role of the state. Some of the outcomes of these policies are considered in terms of whether they advance the material interests of specific groups in society. Additionally, as it is overly simplistic to assume that all fractions of class interests are affected equally the chapter considers some of the fractured class interests that were affected by these productivity/innovation-related policies.

Chapter Six focuses on the core foundations of the neoliberal approach embodied in the GIF and expressed in other areas of policy, specifically social policy initiatives introduced by the Fifth Labour Government, as they also had the potential to affect living standards, particularly for those on lower incomes. It should be noted
that while not all of these policies are specifically listed in the GIF documentation, they are consistent with the approach to economic and social development that is expressed in the GIF. What is particularly interesting is that these neoliberal and supply-side foundations were left off the formal SIAC consultation agenda, when these are the aspects of public policy that have the greatest potential impact on income redistribution and the material interests of class cleavages in New Zealand society.

Part Three is focused on the GIF’s outcomes. Chapter Seven analyses whether the GIF achieved what it set out to do in economic terms. Government agencies, particularly the Ministry of Economic Development, the Ministry of Research, Science and Technology, and Statistics New Zealand, monitored the progress of the GIF by establishing data series to record and evaluate its outcomes. These series are examined in detail, assessing the GIF’s economic outcomes as measured in terms of the Government’s stated policy objectives. Finally, these economic outcomes are critically evaluated in light of research into New Zealand’s economic history. The impact of the GIF in lifting New Zealand’s low rate of productivity in the aftermath of the mid-1970s economic crisis is assessed, and the effects of the crisis are found to be lingering.

The last chapter, Chapter Eight, examines income data to consider whether the GIF benefitted all New Zealanders as promised or some groups in particular. Ultimately, the significant increase in income inequality generated since the mid 1980s continued in the Fifth Labour Government’s first term and has not since been reduced significantly, despite the redistributive efforts made by the Government during the time period this thesis covers and substantial income inequality continues to persist in
New Zealand. Although limited headway has been made and aspects of the distribution have been modified, the divide that was created by the neoliberal reforms of the 1980s and 1990s in New Zealand has not been reversed. This thesis shows that — whether measured on its own or on Marxist terms — while some headway was made, the Fifth Labour Government ultimately retained a variant of modified neoliberalism and failed to achieve the economic growth and social progress promised in its key policy framework, the GIF.

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PART ONE:

HISTORICAL CONTEXT, THEORY AND METHODOLOGY
Chapter One

Theoretical Framework and Methodology: Marxism and Critical Realism

Introduction

The central objective of this thesis is to describe, explain and critically evaluate the Fifth Labour Government’s strategy for economic growth: the Growth and Innovation Framework (GIF) as was outlined in the Introduction. The GIF constitutes the most comprehensive expression of the Fifth Labour Government’s approach to economic development and is therefore the focus of this critique. New Zealand’s postwar economic history can be interpreted from neoliberal, Keynesian and Marxist perspectives: depending on the view adopted, they allow for different critiques to be
made of public policy: this historical background will be explored in Chapter Two. All theoretical perspectives have underlying ideological assumptions and values and it is important to explicitly acknowledge those priors. This thesis employs a Marxist theoretical framework as the basis on which to describe, explain and critically analyse the GIF and some key elements of that theoretical framework are explored in section 1.1. What is included here is not intended to be exhaustive: it is designed to contextualise this critique of the GIF.

The Marxist theoretical perspective informed choices about what to include in the analysis and what to omit. Section 1.2 outlines the empirical research methodology that has been employed through this thesis. Specifically, the data gathering includes detailed analysis of key policy documents and related media commentary, submissions from the consultation process that led to the GIF and other interest group commentary, interviews with relevant politicians and government officials, and statistical material dealing with both the performance of the New Zealand economy and social outcomes from 1999 to 2008, with a particular focus on income inequality.

Finally, the limitations of the research methodology that underpins this thesis are acknowledged. Section 1.3 explores elements of critical realist methodology to highlight some of the limitations of excessively observational or deductive understandings of the world, which should be approached with caution. Central theoretical concepts and key methodological principles are summarised in the conclusion.
1.1 Marxist framework: key elements

This thesis critically analyses a policy framework in a historically specific context, involving political, economic, social and geographical factors: that is, the recent implementation of an economic policy framework by a New Zealand Labour Government immediately following the spread of neoliberalism throughout the advanced capitalist economies. The critique is based on Marxist theoretical foundations. This section identifies some key elements of Marx’s critique of capitalism. In particular, Marx was concerned with the particular form that exploitation takes under capitalism. This exploitation underpins the separation of people into classes, with opposing interests, and generates class struggle or conflict. Marx saw historical limitations to capitalism, in the form of crisis tendencies in the underlying forces of production emanating above all from the tendency for the rate of profit to decline that, as with classical economists including Adam Smith, he accepted was an inherent characteristic of capitalist economies. All of these elements of the critique of capitalism have implications for the class based nature of state policy making: in other words, they help us understand the context in which the GIF was formulated and implemented, and explain why the GIF took the form that it did. For this reason, section 1.1.1 will introduce the idea of exploitation and class relations. Section 1.1.2 will explore the nature of class struggle and how it changes over time. In section 1.1.3 the historical limitations to capitalism will be considered in light of Marx’s theory of crisis. Finally, in section 1.1.4 the implications of this for policy making will be considered. For clarity, in some places key criticisms or misunderstandings of Marx’s perspective are addressed.

1.1.1 Capitalist Exploitation and Class Relations

According to Marx, class relations are based on exploitation. Potential for exploitation lies in the social relations that exist between (groups of) people as a result of their control over the means of production. Marx applied this understanding to both pre-capitalist and capitalist class societies. For Marx, people in class societies are divided into those that produce a surplus product and those that are able to expropriate this surplus due to their dominant position in the relations of production. Surplus product takes different forms depending on the prevailing mode of production: in capitalist societies, it takes the form of wage-labour.

In the context of the capitalist mode of production, the production process is structured to produce exchange-values, or more precisely “commodities whose value exceeds the sum of values of labour-power and means of production consumed in the process of production.”\textsuperscript{33} Because labour is the only commodity that has the capacity to produce value over and above its exchange-value, it is the source of surplus product and the target of exploitation. As in other class societies, if one section of the population produces the surplus product but another section of the population retains control over it, then there is exploitation of the producer of the surplus product.\textsuperscript{34}

Profit, interest, and rent are the monetary forms that surplus value assumes in the capitalist mode of production. In class terms, it is the part of the value passed by the producer (worker) to the non-producer (capitalist): in other words, the difference

between the value produced and the worker’s wages.\textsuperscript{35} The producing class only retains what is socially necessary to reproduce their capacity to sell their labour power. The remaining proportion of the value produced incorporates the value transferred to the commodity output of constant and variable capital, as well as the value added by labour power. This value added is surplus value (or the difference between this living cost, and the value created by the labour power).\textsuperscript{36}

The relations of production in the capitalist mode of production underpin the historical formation of the capitalist and working classes, or the bourgeoisie and proletariat. These classes generate distinct and opposing sets of interests. Capitalists’ chief aim is to accumulate capital: to gain economic profit, or surplus-value. The capitalist class depends on labour power for the extraction of surplus-value or profit. The proletariat or working class on the other hand, has the aim of survival or subsistence. Because of their lack of ownership or control over the means of production (the raw materials and instruments of labour), they are subjected to the socioeconomic compulsion to sell their capacity to work on the labour market in return for a wage.

From the vantage point of 2012, in pre-capitalist modes of production, the exploitative nature of class relations, such as those between slaves and slave owners in classical antiquity and serfs and lords in feudalism is reasonably clear and relatively easy to identify. The capitalist mode of production on the other hand has an illusionary facade of freedom. The relationship between capitalists and workers appears on the surface to be between free and equal parties, who are under no

\textsuperscript{36} Ibid., p 24.
economic compulsion of any sort to enter into such agreements, and do so only when the arrangement is mutually beneficial to both parties. The reality, however, is that members of the working class are separated from the means of production (in the form of property or capital), and as such have no alternative form of subsistence. Capitalist employers on the other hand have the luxury of greater choice. In part, these relations are based on mutual but asymmetric dependence: the working class depends on the capitalist class for subsistence, and the conditions of the capitalist mode of production mean that the capitalist relies on the worker for extraction of surplus-value. But the relationship of the two classes is not balanced, rather, it is based on what Zeitlin termed “asymmetrical reciprocity”. The compulsion under which the worker sells his or her labour-power to the employer is derived from the unequal distribution of means of production: and this is what makes the relations of production under the capitalist mode of production exploitative. As mentioned earlier, this compulsion takes place for the proletariat under conditions of a lack of alternative means of subsistence, and for the bourgeoisie, under conditions of (usually) an ample supply of willing employees.

The nature of the relationship between these two classes is a direct result of the contradictions of the capitalist system. The two classes are simultaneously dependent as well as being engaged in opposition over their ‘mutually exclusive aims’. The bourgeoisie is engaged in the process of producing for exchange, for the sake of producing surplus-value or profit. In order to maximise profits, the capitalist has to fight on two fronts: against other capitalists to undercut their prices (and therefore, keep costs down) and against workers over the extraction of surplus-value, in the

attempt to increase productivity without increasing real wages. In other words, profit and wages are inversely related, and this is why “the interests of capital and the interests of labour are diametrically opposed.” This opposition is the cause of class antagonism, which is caused by the appropriation of surplus value, and which depends on who controls or effectively possesses the means of production.

Some of the key criticisms of Marxist class theory rest on a misunderstanding of its conceptual foundation. One argument put forward is that the long-term rise in the standard of living experienced by the working class in capitalist economies fundamentally challenges the notion of the exploitation of labour, and more crucially the relationship between the wage rate and profit. The argument is that because capitalism can both sustain an increase in material conditions of the working class and continually survive, Marx’s expectation of the immiseration of the working classes is invalid. This rests on either a misunderstanding or misrepresentation of Marxist theory that can be corrected.

The first and most obvious problem with such an account is that a rising standard of living is of little consequence to Marx’s relational theory of class. The relational approach rejects the thesis that incremental increases in the standard of living and/or social mobility (understood as moving up or down gradational

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38 See, for example, Shaikh, A., 1987, “The Falling Rate of Profit and the Economic Crisis in the U.S.”, in Cherry, R. et. al. (ed), The Imperiled Economy: Book 1: Macroeconomics From A Left Perspective, New York, Union for Radical Political Economics, pp 115–7.
categories) for an individual necessarily involves a change in the position of that individual. More fundamentally, the rise in the living standards has not been limited to the working class, and has been surpassed by the increasing standard of living experienced by the capitalist class, so we can speak instead of a relative immiseration of the working class.\footnote{See, for example, Cohen, D., 1998, \textit{The Wealth of the World and the Poverty of Nations}, MIT Press, Cambridge Massachusetts, Chapter 4; Stilwell, F., 2006, \textit{Political Economy: The Contest of Economic Ideas}, Oxford University Press, Melbourne, Chapter 6, especially page 52 on the expansionary tendency of capitalism.} The recent experience of New Zealand reflects this: there has been increasing income inequality in recent years. To some extent this is attributable to the post-1984 policy agenda. However, it is also obvious that distribution of market income (that is, income before redistribution by government intervention) is increasingly unequal over time. In addition, Marx identifies other dimensions of immiseration: for example, alienation. Cole also speaks of the relative immiseration of the working class in cultural terms.\footnote{Cole, K. et. al., 1991 (2\textsuperscript{nd} ed.), \textit{Why Economists Disagree: The Political Economy of Economics}, Longman, New York, p 204.}

More importantly, increased living standards are used as evidence by critics of Marxism to challenge the notion of the class struggle over wages and working conditions, and as proof that Marxists are wrong to suggest that “profits and wages are inversely related”.\footnote{Edgell, S., 1993, \textit{Class}, p 3.} In other words, the Marxist contention that labour and capital are engaged in direct opposition over real wages is placed under scrutiny because if wages are increasing over time, this is clearly at odds with the interests of the capitalist class, because any increase in costs represents a threat to profits. This misunderstanding is avoided if the crucial distinction between two types of real wages is made clear. Orthodox economics identifies real wages in terms of a
propensity to consume (on the part of the worker). The real wage from the point of view of consumption is defined as the purchasing power of the receiver of the wage: calculated by dividing the wage rate by an index of prices (for example, the Consumers Price Index or CPI). From the point of view of the capitalist (production), however, the real wage is conceptualised in terms of the productivity of labour as it is related to the wage rate. It is entirely conceivable that simultaneously, the real wage in the traditional sense of purchasing power can increase, while from a production point of view it can decrease, and hence an increase in the nominal wage (that is, wage that has not been adjusted to account for prices) can be (although not necessarily will be) profitable. In fact, paradoxically, real wages in consumption terms have been increased precisely for the purpose of increasing productivity (and thereby decreasing the real wage rate from the production point of view). Henry Ford provides an example of this: he increased wages dramatically in the hope of increasing worker loyalty, discouraging effort restricting behaviour and decreasing levels of worker turnover. In other words, while he managed to increase the consumption wage of his workers, he decreased relative labour costs to the firm; any increase in the wage bill was offset by the increase in productivity. This point is fundamental for what it suggests is that the rate of productivity growth is high enough it will permit the creation of an environment in which the average rate of profit is sufficiently high to motivate capitalists to invest and reinvest andconcomitantly is sufficient to enable workers to sustain or improve their standard of living. In such an environment, *Ceteris paribus*, the intensity of struggle between classes can be expected to ease. The reverse situation is created when the rate of productivity growth begins to decline.

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The notion of an “efficiency wage” is relevant here, where an employer might pay more in wages or salary with the expectation that it will promote employer loyalty and good will and hence productivity. Resolving the questions raised by increasing standards of living for the proletariat over time (insofar as it has actually happened) relies on the specification that only real wages measured in terms of production are *necessarily inversely related to profits*. Simultaneously, this distinction reveals that not only is the class struggle fought in terms of wage increases when negotiating employment contracts, but also the full range of other causes of employment disputes, many of which are directly related to the overall level of productivity as it is hindered or enhanced by overall conditions of work and employment.

1.1.2 Class Struggle

The previous section addressed the question of the *source* of underlying class antagonisms, and the potential sources of conflict, but what about the *nature* of class struggle under capitalism? Firstly, the exploitation described above is a more or less permanent feature of capitalist societies. Although the rate of exploitation varies over time as the balance of power between the classes shifts, this does not alter the reality that capitalists can only generate profit and accumulate capital by exploiting labour. It is important to note that even if class struggle does not manifest in overt concrete phenomena (industrial action such as strikes as an example), it is a permanent state of affairs within capitalist societies. While exploitative class relations form the basis of class antagonism, these are impacted on in a myriad of ways beyond the simple production equation. Conflict is inevitable, but not always directly observable:
In a Marxist perspective... conflict is inherent in the class system, incapable of a solution within that system. Eruptions, outbursts, revolts, revolutions, are only the most visible manifestations of a permanent alienation and conflict, signs that the contradictions in the social system are growing and that the struggle between contending classes is assuming sharper or irrepressible forms. These contending classes are locked in a situation of domination and subjection from which there is no escape except through the total transformation of the mode of production.\(^\text{47}\)

It should be noted that this does not deny the existence of classes other than the bourgeoisie and the proletariat. Classes are not just conceptualised in terms of their relative position to each other along one or more quantitative dimensions, rather, they are defined by their “qualitative location within a social relation” that simultaneously allows identification of other classes (for example, the petit-bourgeoisie as outside the wage–labour exchange between worker and capitalist).\(^\text{48}\) Wright identifies relational class theories, insisting that “the basic structures of inequality in a society are also structures of interests and thus the basis for collective social action”\(^\text{49}\) In other words, there is an element to class that encompasses potential consciousness of interests and their pursuit. Likewise, there can be other forms of political struggle that are centred around interests that do not appear to be related to class struggle. Although some would argue they are ultimately derived from class conflict, this is not necessarily true for all Marxists.\(^\text{50}\) Nonetheless, Marxists generally consider that class is the central and permanent social-political conflict within capitalist societies.

\(^{49}\) Ibid., p 7.
During the course of history, it is clear that overt class struggle varies in scale and intensity. At different times material conditions, within given societies, make class struggle more or less likely, and these conditions are not always predictably automatic. For example, in times of economic crisis, real living conditions are often seriously and obviously threatened, leading at times to significant visible class struggle. Likewise, they could also lead to unwillingness to participate directly in overt class struggle, given that economic security may be threatened. The reality is that what Edgell termed “political proletarianisation”\(^{51}\) is not ubiquitous throughout human history. Class-consciousness varies considerably over time, and it is a difficult phenomenon to anticipate because of secondary variables, including the pervasiveness of any one ideology, political context, and other factors. This variability has led to a suggestion that Marx’s proletarianisation thesis fails: this failure is attributed to a flaw in Marx’s thinking that has been labeled a “pseudo-scientific operation,” whereby “the link between class and class-consciousness is treated as direct and immediate.”\(^{52}\) This is a misleading representation of Marx’s proletarianisation thesis. It is useful at this point to consider Cohen’s discussion of Edward Thompson’s treatment of this problem in the Preface to *The Making of the English Working Class*.\(^{53}\) In order to respond to the problem, Cohen summed up Thompson’s argument as follows:

“Production relations do not mechanically determine class-consciousness”

(p)


therefore:

“Class may not be defined purely in terms of production relations” (q)\(^54\)

In a nutshell, Cohen takes issue with Thompson’s point that even though there is logic identifiable in the relationship, there is not a causal law; production relations are not sufficient to determine a class.\(^55\) Cohen argues that p is true, but that q does not necessarily follow from p, and then points to Marx’s distinction between a class “in itself” and a class “for itself,” to argue that class can occur before or without consciousness.\(^56\) This is a more valid representation of Marx’s argument. Marx does not insist that revolutionary uprising, or even participation in industrial struggle, is the obvious and immediate strategy for the working class. This does not mean that production relations cannot form the basis of class relations. Rather, the transformation of an individual from being in an objective class location to developing a political class-consciousness depends on several variables, including but not limited to historical political and economic context. For this reason, it is useful to consider the nature of economic development under capitalism.

1.1.3 Crisis Tendencies of Capitalist Development

The relationship between labour and capital under capitalism is full of dynamic contradictions, implying that over time, the capitalist mode of production would reactively undergo considerable transformation (although the extent to which capitalism has been reinvented is disputed). As the capitalist mode of production has changed, a number of ongoing tendencies have been conceptualised and observed,

some of which are discussed below. In particular, these are the concentration and
centralisation of capital, the related process of proletarianisation, and the tendency for
the rate of profit to fall. This is useful background for considering the potential for
economic growth arising from policies such as the GIF.

Capital, in the form of the means of production, can appear to control workers
(and even materially do so, as in the case of the factory). However, it is more accurate
to say that the material relations between workers and the means of production are
governed by the social relations of production. To the capitalist, the means of
production represents their portion of social wealth. The process of capital
accumulation is characterised by two tendencies. In order to invest, one must have
accumulated some capital, and in the event that an investment is profitable, one is
then better placed to reinvest and continue to accumulate capital. Therefore, over
time, capital tends to concentrate in the same hands. Related to this, but as the result
of a separate process, is the tendency for capital to centralise. This occurs because
within the arena of economic competition in the market, large-scale investment is
encouraged by the presence of competition; firms are fighting over shares of the
market, trying to keep costs down and attract further investment by ensuring
profitable operation. The key point here is that in the context of the market, larger
firms are generally in a better position to keep costs down and to conduct R&D and
engage in innovation, in terms of both their market share and investment possibilities.
The tendency is for the smaller firms to be swallowed up by larger ones, meaning that
capital also centralises in fewer hands over time. Mainstream economics has a useful
term for this centralisation: “economies of scale.”
Because capital concentrates and centralises the numbers separated from the means of production grow over time. This process is described as *proletarianisation*. Edgell identified three elements to the proletarianisation process: the increase in the actual size of the proletariat as capital concentrates and centralises (which was mentioned earlier in the discussion regarding the immiseration of the working class), the proletarianisation of work, and the political awakening of the proletariat who then become decisive actors in determining the continuance of the capital-labour relationship.\(^{57}\)

As mentioned earlier, firms within capitalist economies must strive to generate an adequate rate of profit and one of the two ways they do this is through increasing productivity in relation to the wage rate (the productive wage in terms of the earlier discussion). This can be achieved by increasing the length and/or intensity of the work effort being carried out, but a further method of increasing intensity is to improve technology:

Firms constantly push workers to work harder. Productivity schemes, piecework, and threats are all part of this pressure. But there are limits to how far the work effort can be pushed. Therefore, in the long run it is the development of new methods of production which becomes the critical factor underlying a secular rise in the productivity of labour.\(^{58}\)

The drive to increase productivity and lower costs tends to result in the mechanisation of production, or replacing variable capital (labour) with constant capital (physical inputs). Because the labour theory of value states that surplus-value only comes from labour (or variable capital) this means that over time, the increasing ratio of constant


to variable capital leads to a tendency for the rate of profit to fall. If individual capitalists are beaten in the battle for profits by other competing firms, they either collapse or are taken over, and vanish from sight. His conviction that capitalism is characterised by a tendency for the rate of profit to fall is the fundamental reason Marx argued that crisis is inherent within the capitalist mode of production.

However, it is important to remember that the tendency towards crisis is a process that is countered to a greater or lesser extent by other tendencies inherent to the process of capital accumulation and the effort, on behalf of capitalists, to overcome a crisis in productivity. Hansen identifies at least three of these counterveiling tendencies: “an increased mass of profits arising from accelerated accumulation; a reduction in the value of constant capital due to increased productivity; and a reduction in the cost of labor-power through a reduction in the value of its means of reproduction, and through an increased tendency towards a relative surplus population.” At different moments in history, and in different political-economic contexts, each tendency will be of greater or less dominance or influence. In other words, as mentioned above, the process of capitalist development is subject to ongoing transformation. As Marx put it: “the law only acts as a tendency. And it is only under certain circumstances and only after long periods that its effects become strikingly pronounced.” Crucially, at least in Marx’s more abstract writings about the tendency towards crisis, this tendency in and of itself holds no claim to a predictive historical end-game of capitalism. Rather, it is:

a theoretical elaboration of a tendency which seems to be posed as the movement towards a certain class of events, as the link between the contradictions of capitalism in their abstract form and the realization of those contradictions in history. But the events which would represent the end of accumulation are not specified beyond the postulation of their possibility, and the immediate qualification of that postulation through a discussion of counteracting forces. In [Marx’s] discussion of the falling rate of profit, the characterization of capitalism as a temporary mode of production is removed from the realm of specific events, and returned to the general conception of contradiction from which it arose.\textsuperscript{61}

But having conceded that what is being discussed is a tendency begs the question does the empirical support the notion that tendency for the rate of profit to decline has or is outweighing the many influences that countervail this tendency? This is a topic that has been subjected to sustained debate and recently has been addressed by scholars who have applied modern econometric investigations to clarify the behavior of the rate of profit. These scholars have utilized the methods of time series econometrics and conclude:

The evidence suggests that the rate of profit is non-stationary. We also specify a test of Marx’s law of the tendential fall in the rate of profit with a novel econometric model that explicitly accounts for the counter-tendencies and their time series properties. We find weak evidence of a long-run downward trend in the general profit rate for the U.S. economy for the period 1948-2007.\textsuperscript{62}

It is important to reinforce the extent to which this is not a theory of under-consumption: rather, the contradictions of capitalism (and the driving force of


capitalism’s transformation over time) lie in production, rather than consumption.\textsuperscript{63} Indeed, “the potential for crises arises from the contradiction between the unlimited productive powers of capitalism and the limited productive purposes of capitalism”.\textsuperscript{64} This highlights the extent to which the discussion of crisis tendencies is inextricably linked to the discussion of class struggle, and helps us understand the distinction that Hansen makes between some theorists’ notion of the “final collapse” and the more useful term that he describes as the “guiding concept of the emerging world communist movement”: the “final conflict”.\textsuperscript{65}

Debate amongst political economists about whether a final collapse will occur continues, but assuming, as this thesis does, that Marx is correct that there is an underlying tendency towards crisis, the ongoing discussion amongst Marxists is when it is going to occur. As Engels discovered, prediction is highly problematic within a system as dynamic as the capitalist mode of production. In the 1886 Preface to Volume One of \textit{Capital}, Engels pondered the imminent fate of capitalism which he described had entered a period of malaise that distinguished it from an earlier time of rapid growth:

The time is rapidly approaching when a thorough examination of England’s economic position will impose itself as an irresistible national necessity. The working of the industrial system of this country, impossible without a constant and rapid extension of production, and therefore of markets, is coming to a dead stop. Free Trade has exhausted its resources... Foreign industry, rapidly developing, stares English production in the face everywhere... While the productive power increases in a geometric, the extension of markets proceeds at best in an arithmetic ratio. The decennial

\textsuperscript{64} Ibid., p 20.
\textsuperscript{65} Ibid., p 31.
cycle of stagnation, prosperity, over-production and crisis, ever recurrent from 1825 to 1867, seems indeed to have run its course; but only to land us in the slough of despond of a permanent and chronic depression. The sighed for period of prosperity will not come; as often as we seem to perceive its heralding symptoms, so often do they again vanish into air. Meanwhile, each succeeding winter brings up afresh the great question, ‘what to do with the unemployed’; but while the number of the unemployed keeps swelling from year to year, there is nobody to answer that question; and we can almost calculate the moment when the unemployed losing patience will take their own fate into their own hands.  

Evidently, Engel’s forecasting of the potential total collapse of the economy and possible “final conflict” did not transpire subsequent to 1886. This would appear to be highly pertinent for since the early 1970s capitalism has been characterised by a period of malaise similar to that described by Engels. The point is that capitalism was able to reinvent itself and from 1919 embrace practices and policies that gave a new vibrancy to the rate of profit. This vibrancy was sustained until the early 1970s and once the problem of how to distribute the increased wealth in a way that would ensure there was adequate demand in the economy was resolved by Keynes an environment was sustained in which it was possible to grow the economy at a pace that made it possible to generate an adequate rate of profit and enable workers to improve their living standards and thus ease the overt conflict between classes that had characterised the period prior to the long boom.

What induced the revival of the rate of profit from 1919 is an issue that remains contentious. Nyland suggests that the answer lies in the emergence of management

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science which he holds was a new tool that had immense capacity to raise productivity without raising the organic composition of capital.\(^{68}\) Whether this claim has validity is beyond the scope of this thesis but the key point being made is that the decline in the rate of profit can undermine the vitality of capitalism, but it is a tendency that can be countered though only if appropriate tools are available. This observation is highly pertinent to this thesis because the rate of profit has sustained a decline since the early 1970s.\(^{69}\) Why this the case is also beyond this thesis but it is of great importance for understanding why supply side economics came to prominence in the late 1970s and why the Fifth Labour Government attached primary attention to enhancing productivity and why its leaders believed they had few resources that they could allocate to their support base.

1.1.4 The Role of the State in Capitalist Societies

So far, we have considered the exploitative nature of class relations under capitalism, the nature of class struggle, and the tendency of capitalism towards crisis, all elements that contribute to the nature of state policy making. Engels pointed out that, historically, societies have managed without the state and that it came into


existence with the emergence of property. In short, the class structure is not part of the natural order of things, and has changed over time with the development and transformation of the relations of production. The question of how the class structure came into being and how it is maintained is crucial in considering the role of the state as the guarantor of a given set of property relations. As Sweezy puts it, the state:

is the product of a long and arduous struggle in which the class which occupies what is for the time the key positions in the process of production gets the upper hand over its rivals and fashions a state which will enforce that set of property relations which is in its own interest. In other words any particular state is the child of the class or classes in society which benefit from the particular set of property relations which it is the state’s obligation to enforce.\(^{70}\)

More specifically with respect to the capitalist state, the state is disproportionately influenced by the bourgeoisie and must be overthrown during the revolutionary process. This is why Lenin and other classical Marxists argued that the dictatorship of the proletariat is necessary, as is the elimination of the bourgeoisie.\(^{71}\) During the period of revolutionary transition from capitalism to socialism, it is necessary to remove the bourgeoisie and seize the means of production, smashing the state in its bourgeois form and seizing direct control:

We have seen […] that the first step in the revolution by the working class is to raise [literally “promote”] the proletariat to the position of ruling class, to establish democracy.

The proletariat will use its political supremacy to wrest by degrees all capital from the bourgeoisie, to centralize all instruments of production in


the hands of the state, i.e., of the proletariat organized as the ruling class; and to increase the total of productive forces as rapidly as possible.\footnote{Marx, K. and Engels, F., 1932, \textit{Manifesto of the Communist Party}, London and New York (Authorised English Translation of 1888), pp 20–30 (30).}

Reaching this goal of the dictatorship of the proletariat requires force and, through this process, the complete reorganising of production and subsequently, the removal of the state apparatus that defended the previous order. However, history is not just a series of events, rather, a process of ongoing transformation. In other words, revolution is absolutely vital and must ultimately be democratic in the broadest sense. The oppressing class must be overthrown and as part of this process, the state as it embodies the class struggle must be overthrown, and remaining elements “wither away”.\footnote{Lenin, V., 1884, \textit{State and Revolution}, British Socialist Party, United Kingdom, p 9.} In the period immediately following the revolution, the transition from socialism to communism, the proletariat needs some form of organisation, and the new state form required and created by the proletariat will be a radically democratic workers’ state.

The notion that the state is defined by and is a manifestation of class relations, begs the question: how much autonomy the state actually have? If the state form reflects and reinforces the domination of one class over another, it seems logical to assume that the state is dominated by the ruling class, and therefore maintains no independence. This is too simplistic, because at least some semblance of neutrality must be maintained or the exploited class would not consent to the rule of governments that often act in ways that are contrary to their interests, and the state commonly must make choices that favour different sections of the ruling class but not others.
If the state is at least in part independent from civil society and grew out of class antagonisms, does that not mean that in some respects it can play a role in mediating the class struggle and formulating an outcome? Engels describes the suppression of open class conflict and relegation of the class struggle to economic, legal contexts. This in no way infers that the state seeks to “reconcile” class interests: that would be impossible, because the very existence of the state reflects the existence of class antagonism:

The state is the product and the manifestation of the irreconcilability of class antagonisms. The state arises when, where, and to the extent that class antagonism cannot be objectively reconciled. And, conversely, the existence of the state proves that the class antagonisms are irreconcilable.74

Rather, the state is an organ of domination, legalising and perpetuating oppression.75 At the point in history at which the state was created, the economically dominant class became politically dominant, despite the possibility of some independence of the state.76

The extent to which the state is autonomous and independent has been the subject of much discussion and is ultimately not resolved. A famous expression of this discussion is the debate between Ralph Miliband and Nicos Poulantzas, beginning with the publication of Miliband’s 1969 book The State in Capitalist Society, and the subsequent critique by Poulantzas in the November/December issue of New Left

74 Ibid., p 8.
75 Ibid., pp 8–9.
76 Engels, F. 1884, The Origin of the Family, Private Property and the State, p 168.
Review in 1969. In The State in Capitalist Society, Miliband makes a substantial empirical contribution, examining the relationship between elite power networks of the state on the one hand and the dominant or ruling class on the other. He establishes that a dominant class can be conceived of in post-war advanced capitalism, and draws parallels between the so-called “new managerialism” and the more traditional economically dominant class in the form of the bourgeoisie. One of his primary objectives is to establish empirically that there are links between the dominant class and the state. This leads to one of Poulantzas’s main objections. Firstly, by arguing directly with the “adversary” through the use of the hegemonic conception of plural elites and political power, he states that Miliband “places oneself on his ground and thereby risks floundering in the swamp of his ideological imagination, thus missing a scientific explanation of the ‘facts.’” In other words, he has employed the method of the bourgeoisie in describing the apparent existence of power networks and elites, and in doing so, has given weight to the notion that elites can be defined in this way, subsequently neglecting the extent to which social classes and the state are objectively defined structures. Miliband responded to this criticism by arguing that the structuralist conception of the state denies that there can be any freedom of choice on the part of agents (for example, state bureaucrats), and thereby declares it impossible for them to have an effect. More substantially, Miliband argues that Poulantzas’s heavy emphasis on what he calls “objective relations” at the expense of all other factors renders the state a mere functionary of the ruling class, despite Poulantzas’s claim of relative autonomy:

80 Ibid., p 70.
since the ruling class is a dominant element of the system, we are in effect back at the point of total subordination of the state elite to that class; i.e. the state is not ‘manipulated’ by the ruling class into doing its bidding: it does so autonomously but totally because of the ‘objective relations’ imposed on it by the system. Poulantzas condemns the ‘economism’ of the Second and Third Internationals and attributes it to their neglect of the state […]. But his own analysis seems to me to lead straight towards a kind of structural determinism, or rather, a structural super-determinism, which makes impossible a truly realistic consideration of the dialectical relationship between the State and ‘the system’.81

The dialogue between Miliband and Poulantzas continued through the 1970s, with the publication of each author’s subsequent books and in open correspondence, largely through New Left Review. Poulantzas remained quite convinced that his commitment to structuralist interpretations of the state did not compromise the notion of relative autonomy, and in fact enhanced it, whereas Miliband felt that Poulantzas’s conflation of class power and state power undermined his understanding of how the two are ultimately qualitatively different.82 One way in which Poulantzas attempted to maintain this relative autonomy was by including a section in Political Power and Social Classes in which he established quite clearly that the capitalist state has the flexibility (and indeed the motivation) to concede “a certain guarantee to the economic interests of certain dominated classes, within the limits of the system.”83 He provides some sound motivations for the state in doing so, including the preservation of hegemony, and even goes so far as to term this an “unstable equilibrium of compromise.” In other words, the possibility of concession to the economic interests of the dominated class

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(compromise), circumscribed by the limits imposed by the dominant economic interests which prevent any challenge to the political power structure that exists (equilibrium) emerging from the conflict of the political context (unstable).\textsuperscript{84}

Although many of these points are reasonable, what is missing is an acknowledgement of the dynamism of the class struggle and its impact on the state. The structural dominance of the capitalist class is treated as so automatic by Poulantzas that there is not much stock taken of the extent to which concessions to the dominated class, economic or otherwise, are not granted automatically: it takes active engagement in the class struggle on the part of the dominated class for concessions to be won. This idea is treated more adequately later in the book\textsuperscript{85} but largely as an afterthought. However, in his later work, Poulantzas is much more explicit:

The (capitalist) State, in the long run, can only correspond to the political interests of the dominant class or classes [...] Yet, within these limits, the degree, the extent, the forms, etc. (how relative, and how is it relative) of the relative autonomy of the State can only be examined (as I constantly underline throughout my book) with reference to a given capitalist State, and to the precise conjuncture of the corresponding class struggle (the specific configuration for the power bloc, the degree of hegemony within this bloc, the relations between the bourgeoisie and its different fractions on the one hand and the working classes and supporting classes on the other, etc.). I cannot, therefore, answer this question in its general form precisely on account of the conjuncture of the class struggle.\textsuperscript{86}

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\textsuperscript{84} Ibid., p 192.
\textsuperscript{85} Ibid., pp 275–89.
Poulantzas elaborates more fully on these elements in his later book, *State, Power, Socialism*.\(^{87}\) Miliband, in turn, becomes more accommodating of the structuralist approach in his later work, while still maintaining some focus on the role of individuals:

There has been considerable discussion among Marxists and others about the nature of the constraints and pressures which cause the state to serve the needs of capital – notably whether these constraints and pressures were ‘structural’ and impersonal, or produced by a ruling class armed with an arsenal of formidable weapons and resources. But beyond the differences that were expressed in these discussions, there was a fundamental measure of agreement that the state was decisively constrained by forces external to it, and that the constraints originated in the national and international capitalist context in which it operated.\(^{88}\)

Miliband has acknowledged that structural forces play a role in influencing the state, while not accepting the notion that structural forces are the only factors at play. The early Miliband was labeled an instrumentalist, but his later work moves beyond this. Some have argued that this suggests that the state is the direct instrument of class rule: that, in the example of a capitalist society, it is controlled immediately by the capitalist class. For example, Dunleavy and O’Leary identify in Marx’s writings a tendency to rely on a (somewhat refined) instrumentalist view of the state.\(^{89}\) Variations on this theme include the idea that capital and labour have unequal capacities to organise industrially and politically, and qualitatively and quantitatively different levels of influence over the state by virtue of their unique characteristics. The capitalist class rules to the extent that it can effectively influence the state to act in its

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interests. There is some connection to elite theory here, in that some perspectives that fall within the instrumentalist camp use the class affiliations of the state bureaucracy as evidence for the direct link between capital and the state apparatus, although this is clearly a simplification. Rather, Miliband was quick to point out that the state had some degree of autonomy.

With regard to the question of the state’s autonomy, several key points are worth noting. The state uses this “relative autonomy” to sustain what Poulantzas termed the “general institutional framework of capitalist enterprise”. As stated earlier in this section, this relative autonomy inherently works to protect the interests of the ruling class, and ultimately, the state needs to be overthrown. Block describes a number of characteristics of the capitalist state. Firstly, multiple interests of capital exist and the state, in acting in the general interest of capital may act against the interests of particular sectors of capital, therefore, the state has some relative (not absolute) autonomy. Secondly, he argues that for the state to have autonomy, the ruling class (or at least part of it) must have class consciousness: if this class consciousness exists, the autonomy of the ruling class is clearly limited. This implication can only be ignored if the notion of a class-conscious ruling class is rejected.

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92 In any case, it would be difficult to prove that the class position of a state bureaucrat determined whose interests they attempted to defend within the state.
94 Ibid., pp 53–4.
The critique of instrumentalism has produced a number of explanations for the privilege afforded to the ruling class in influencing the precise form the state takes. In the book *State Theory: Putting Capitalist States in Their Place*, Jessop summarises the major theoretical strengths and weaknesses in structuralist, form determinist and “strategic-relational” approaches, as they emerged in response to instrumentalism.  

For example, structuralist perspectives of the state can offer considerable insight into the external constraints which make it necessary for a state to pursue policies favourable to the interests of capital, such as the veto power held by investors, reinforcing the “structurally held privileges of capital”. On the other hand, given the state’s relative autonomy, these factors do not account fully for the fact that the most important state actors inherently understand the overriding priority of maintaining the economic stability of capitalist production relations. This requires a certain component of ideological domination by capital. The crucial question in examining the role of the state is whether the institutional mechanisms of capitalist production persist over time, and if so how this happens. Moreover, the “simple class rule” argument neglects the ideological role of the state in maintaining the legitimacy of the social order, which requires the state to at least appear to be neutral.

This debate has led to a more useful representation of what is meant by the phrase *class character of the state*. The phrase relates to the fact that the state is not neutral, and instead, as Jessop puts it, conveys that “the form of the state is a reflection of the economic base of society and ... its interventions are a reflection of the needs of

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96 Ibid., p 146.
the economy and/or of the balance of economic class forces.”

Importantly, though, it cannot be assumed that the ruling class is sufficiently conscious of its class position to directly control the state. The ruling class is not homogenous enough to manipulate the state pre-emptively. While there are individual policies that can benefit all capitalists, there is no one coherent set of policies that are in the interests of all fractions of capital: rather, different sectors of capital have particular interests which at times diverge from what has been termed the general interests of capital. Indeed, it is not even always clear to individual capitalists what policies are in the long-term interests of their sector as they are constrained by the competitive requirement that means they operate in survival mode.

These percolating factors argue against a unification of the bourgeoisie that, fully conscious of its class position in opposition to generalised labour power, could organise effectively to exercise strategic influence over the state. However, the state still has in its own interests the continued reproduction and ongoing success of capitalist production. In other words, the state needs to be able to continue to implement policies which are in the interests of general capital and consequently must have some autonomy from the immediate influence of capital.

The state assists capital accumulation by creating the conditions for capitalists to produce profit, and maintaining order and control within society. Specifically, the former includes providing direct physical resources like roads and industrial sites, and providing housing and health to those in the working population (reducing the

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cost of the labour force and keeping the labour force healthy for work). Maintaining order involves repressive mechanisms like the police, and institutions like schools, which have a legitimisation function.\textsuperscript{102} Policies which emerge as pro-bourgeoisie are not necessarily consciously designed to be so by representatives of the bourgeoisie; rather they may emerge as the unconscious product of the structural relations among state managers, capitalists and workers.\textsuperscript{103}

Ideology has a role to play in maintaining and perpetuating the status of the ruling class, and the Marxist analytical framework helps us to understand the role of the state in the class struggle. It is particularly helpful when considering the shaping of state policy in the absence of sharp political debate or overt class struggle. In Chapter Four, this framework will become particularly relevant when the consultation process the Fifth Labour Government used in formulating the GIF is examined in detail, and the dialogue of different interest groups is analysed, revealing the different ways in which they conceptualise questions, and how these are promulgated, adopted, or rejected by the state.

1.2 Methodology

Thinking at the transhistorical level of abstraction identified above is a conceptually different task to considering the interventions of a state in a specifically capitalist society, as is done in this thesis in the specific example of the Fifth Labour Government in New Zealand. It is useful to think about the effects of state interventions on relations of production, but it is even more useful to think about the


implications of interventions for the material conditions of capital accumulation and the terms on which the class struggle is conducted. In other words, for our purposes, in what ways did the GIF directly or indirectly advance the material interests of capital and labour? It is one thing to say that a particular policy shows that the state is working overall to protect the interests of generalised capital. It is another (not entirely separate) thing to say that a policy directly advances the material conditions and interests of employers in particular over the interests of workers, or in fact of intra-class interests over others in their class. These issues will be considered in Chapters Five and Six to provide a more complete picture of the role of the state in contemporary New Zealand society.

This thesis employs analysis at a number of moments where the class struggle is expressed overtly in relation to the policy making process. New Zealand’s changing place in the international division of labour and in the context of globalisation is examined, as it has led to the growing importance of innovation to countries like New Zealand in the context of manufacturing being lost to the newly industrialised countries of Asia and the need to develop a “knowledge economy“ given the entry into the world economy of nations with large pools of cheap labour. The context of the 1999 election and the Fifth Labour Government’s first term will be considered in detail and commentary from key political actors in the media and other secondary material will be utilised to consider the particular trajectory of class struggle and balance of class forces prevalent in the lead-up to the formulation of the GIF. Likewise, considerable attention is directed towards the consultation process that resulted in the GIF through the appointment of the Science and Innovation Advisory Council (SIAC). The consultation process is examined in Chapter Four of the thesis, and included the
composition of working documents containing a “vision” for New Zealand, which were placed in the public domain. Submissions were invited from key stakeholders and the wider community, and workshops were held to canvas a wide variety of views. The responses have been categorised and analysed with respect to the different interest groups they represent, as are individual submissions. A number of reports were commissioned as part of the consultation process, and these are unpacked in detail. A study of the progression of ideas through the various manifestations of the SIAC vision has been conducted, looking at what was left in and what was kept out of the final GIF document.

Additionally, interviews were conducted with key informed observers, including a number of politicians who were central to the decision-making process, members of interest groups prominently involved in the debate and consultation process, senior public servants, and members of the Growth and Innovation Advisory Board (GIAB). Invitations to participate were sent to twenty-six individuals with two consent options: Option A allowed participants to be identified as the source of their comments and to go on the public record, while Option B allowed them to remain anonymous and to speak confidentially (see Appendix A: Information and Consent Form). Of those invited, ten agreed to participate, with six agreeing to go on the record and four preferring to keep their responses confidential. The interviews were open-ended, as it was expected the participants would have insights not anticipated by the researcher. The interviews were recorded and transcripts are securely stored according to the University of Otago’s Guidelines for Ethical Practices in Research and
Teaching Involving Human Participants.\textsuperscript{104} Rather than having a section dedicated to the content of these interviews, key insights from them have been included where relevant through the text of the thesis. The interview material is supplemented with reference to the publications of the key interest groups, government speeches, policy documents and other media sources as appropriate.

Finally, throughout the thesis empirical data is presented that has been taken from a number of sources, including official GIF monitoring publications, statistics collected by various ministries and other government departments, economic data from the OECD and other international non-government agencies, reports, and data collected by Statistics New Zealand such as from the Census, Household Economic Surveys and Income Surveys. This material has been analysed in order to assess the outcomes of the GIF for the New Zealand economy and for particular groups within New Zealand society.

1.3 Critical Realist Methodology and the Limitations of Knowledge

It is necessary to highlight some crucial points about Marx’s methodology that underpin the analysis employed through the rest of this thesis. These points include a discussion of the underlying principles of critical realism, because it suggests the adoption of a retroductive research strategy and the use of different levels of abstraction to interpret and understand social phenomena. Subsequently, this discussion provides some insight into the different levels of abstraction present in the

\textsuperscript{104} University of Otago, Guidelines for Ethical Practices in Research and Teaching Involving Human Participants, Available at: http://www.otago.ac.nz/administration/policies/otago029484.html, accessed 2 May 2010.
analysis of the GIF. This section involves a discussion of the crucial distinction between historically specific and transhistorical categories of analysis, and how this distinction should be employed and recognised when analysing what Marx termed *relations of production*. It also involves a discussion of the capacity of these methodological tools for understanding the conditions under which society can be transformed.

The realist school of philosophy emphasises the reality of the abstract, or a set of universals that exist as a priori (*before things*), which can be considered to have an equal or even superior reality to physical particulars. These universals are of an “objective world”, which exists regardless of whether it is perceived or conceptualised by people. Critical realism accepts this basic premise, but questions the relation of knowledge (of this world) to its object. In other words, it questions the extent to which we can understand these abstract universals, or the “essence” of reality, given the limitations of scientific enquiry in understanding, explaining, and predicting its object.

It is a widely held belief that the pursuit of knowledge of universals should be more straightforward and successful in the natural sciences than in the social sciences. Some argue that this suggests the need to draw a clear distinction between the methodologies employed in the natural and social sciences, by virtue of their

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radically different subject matters. Bhaskar refutes this suggestion, arguing instead for a “qualified anti-positivist naturalism”. In other words, he suggests that the methods of the natural sciences have some utility for understanding social phenomena, given that the subject matter of the natural sciences and the social sciences is not that radically different. Marx would agree. However, Bhaskar also highlights the extent to which the natural sciences over-estimate the completeness of their understanding of the natural world, by not employing a more critical perspective of the relationship between knowledge and the object of this knowledge. He illustrates this criticism by examining the properties of societies that make it possible for us to consider them as possible objects of knowledge.

Given the growing frustration with the limitations of the research strategies of induction and deduction that are prevalent in the natural sciences, critical realists have adopted an alternative strategy of retroduction. The starting point in retroduction is a connection or relationship between phenomena observed or experienced directly in the domain of the actual world. The task is to explain the connection or relationship between these phenomena. In order to understand the relationship, a model is proposed, which suggests the existence of real structures or mechanisms that, if true, would explain the observed relationship. The major difficulty is to demonstrate with certainty that the proposed mechanisms do exist, given that they are not directly

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110 Bhaskar, R., 1979, “On the Possibility of Social Scientific Knowledge”, p 111

observable. This strategy contains a clear acknowledgment of the deficiency that the positivist empiricists in the natural sciences have been criticised for: that is, the assumption that observations and experience, albeit in controlled environments, can necessarily constitute immediate and clear proof of the theoretical model or law being tested as a hypothesis, or at least until proven otherwise. This approach demonstrates a more critical conceptual understanding of the relationship between direct experience and the abstract universals spoken of above. Rather than suggesting that different properties in the subject matter of the natural and social sciences require different methodologies, the retroductive strategy is a call to the sciences in general to be more cautious about what constitutes “proof”, and to continually reexamine what constitutes the “stock of knowledge” of the abstract universal world.112

The retroductive research strategy needs to be clearly distinguished from the abductive method, which relies on an interpretative epistemology. Essentially, in the abductive method, theory is constructed from everyday experience directly, as social actors themselves express it. This method can reflect either a preoccupation with identity as determinant of the social rather than underlying social structures or mechanisms, or a direct, automatic, even causal link between the two. The critical realists reject this notion. Bhaskar argues against the use of the individual as the primary unit of analysis, or at the very least, argues that it is impossible to reduce the social to the sum of its parts (in other words, of individuals or individual groups).113 Instead, he makes the point that sociology is primarily concerned with relations between individuals and groups, and with “relations between these relations” – in

113 Ibid., pp 111–7.
particular, sociology is concerned with those relations that persist over time.\footnote{Ibid., p 113.}

In Marx’s terms, this concern is the basis of historical materialism, with the forces and relations of production assuming a key role in social transformation, and therefore an explanatory role.\footnote{Callinicos, A., 1983, \textit{Marxism and Philosophy}, p 99.} Marx combines his relational conception of social science with what Bhaskar terms a “transformational model” of the social activities carried out by members of society (in the Marxist case, this must happen collectively).\footnote{Bhaskar, R., 1979, “On the Possibility of Social Scientific Knowledge”, p 126.} By abstracting relations of production at different levels, the relationship between society and the individual is mutually reinforcing but also progressive. In other words, society is capable of being both reproduced and transformed over time. This process is illustrated in Figure 1.1:

![Figure 1.1: The Transformational Model of Social Activity](image)

Figure 1.1 illustrates the way that on the one hand, society provides the conditions for human activity, shaping and limiting individuals’ social activity, “circumscribing its form” but not necessarily including the element of coercion suggested by Durkheim.\footnote{Ibid., p 120.}
On the other hand, the relations of a particular society are reproduced (largely unconsciously) by individuals, and very occasionally, transformed. This concept is in stark contrast to the suggestion that individuals create society, as society must pre-exist individuals.\(^\text{119}\) Importantly, this model allows for the concept of change to be incorporated, and therefore provides a sense of history or progression.\(^\text{120}\) Interestingly, this is the case for both the individual and society, as indicated by the horizontal arrows. The materialist conception of history gives Marx’s commitment to a relational conceptual framework a transformational dimension that is consistent with this model. The model also takes account of the extent to which material conditions (as they possess a social dimension) can circumscribe an individual’s social activities, and how achieving a particular understanding of society can also shape an individual’s social activities. However, this emphasis on the relationship between individuals and society does not imply that individuals acting in isolation from each other have the capacity to transform society. One of the key points of the transformational model is that in order to transform society, individuals must act collectively.

Marx’s materialist conception of history is useful for understanding the nature of social change, in this case acting as a heuristic device for investigating the way in which different social relations that are centered around the control of the means of production, including both the physical inputs in the productive process, and labour, have appeared throughout history. The key to understanding society and its transformation over time is the mode of production: how to combine material resources, and the implications of this for social organisation.\(^\text{121}\) The process of societal

\(^{119}\) Ibid., pp 119–20.

\(^{120}\) Ibid., p 121.

transformation can be explained in part by changing social relations of production, but also the material conditions that shape production itself (the forces of production).

At a basic level, the materialist conception of history lets us consider modes of production in their historical context. It enables us to compare different sets of social relations, and to make sense of the different configurations of class relations that emerge from different modes of production. It also helps us to understand the way in which the forces of production operate under different circumstances to reproduce the social relations of production characteristic of a given society. While maintaining a clear understanding of the differences between modes of production that have appeared over time, the adoption of a historical materialist perspective in conjunction with a level of theoretical abstraction that can be applied transhistorically highlights the “common threads” through each mode of production. In turn, this method allowed Marx to arrive at some general principles for abstract theoretical analysis. However, it also assisted Marx in analysing concrete societies.

Even more usefully, the materialist conception of history offers extraordinary explanatory power when used to analyse the development and progression of modes of production. Because it emphasises the extent to which historical change is borne out of material realities, it provides insight into the historically specific nature of modes of production, and how the internal contradictions of any system lead to its ultimate demise. As Fine puts it, in any one mode of production, “the contradiction between the forces of production and the relations of production… (act) as the motive force of historical change.” ¹²² For example, Marxists argue that the capitalist mode of

production suffers from a tendency towards crisis, the resolution of which is ultimately impossible within capitalism as it is at odds with the continued reproduction of the prevailing relations of production. In the process of trying to work this out, new solutions have to be found: if the old system of organising production does not work, new organising principles need to be arrived at. As Bhaskar puts it, “historical materialism asserts the causal primacy of men’s and women’s mode of production and reproduction of their natural (physical) being, or of the labour process more generally, in the development of human history.”

However, what an individual experiences and their understanding and possible response to that experience is incomplete, because of the limitations to the comprehension of the objective world (in the case of the social sciences, the social structures, mechanisms, or tendencies) mentioned earlier in this section. Society does not exist independently of individuals, and it is not possible to directly observe society as separate and independent of its effects on individuals. Instead, what appears to be happening at the level of direct experience and what is in fact happening at the social-structural level do not always correspond.

Ollman makes the crucial point that abstraction is both part of the problem in understanding social change and interaction, as well as a major source of enlightenment for those that employ the process in a deliberate and sophisticated way. Typically, in wrestling for an understanding of the perceived world, people separate the perceived world into components, selecting and focusing on some elements more than others, and defining boundaries and links between constituent

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parts. Implicitly or explicitly, these judgments form a “world view”, with its accompanying explanations of phenomena.\textsuperscript{125} However, most of us do this unconsciously, and therefore, insufficiently:

though everyone abstracts, of necessity, only a few are aware of it as such. This philosophical impoverishment is reinforced by the fact that most people are lazy abstractors, simply and uncritically accepting the mental units with which they think as part of their cultural inheritance.\textsuperscript{126}

Marx described this type of abstraction of “particularly ill-fitting mental constructs”\textsuperscript{127} as central to his criticism of ideology. Because this process of abstraction establishes the specificity to us of what we know, it fails to help people to think adequately about social change.\textsuperscript{128}

Marx’s concern with understanding social change and interaction is precisely what led to him to deliberately employ the process of abstraction as a methodological preference. Ollman provides an excellent account of the processes of abstraction employed by Marx and highlights their explanatory power in understanding social change, not just as point in time (x) to a future point in time (x + 1), but as an ongoing transformation:

Marx set out to abstract things, in his words, “as they really are and happen,” making how they happen part of what they are…. Hence, capital (or labour, money, etc.) is not only how capital appears and functions but


\textsuperscript{126} Ibid., pp 28–9.

\textsuperscript{127} Ibid., p 9. This is Ollman’s phrase, not Marx’s.

\textsuperscript{128} Ibid., p 28.
also how it develops; or rather, how it develops, its real history, is also part of what it is.\textsuperscript{129}

Ollman outlines three modes of abstraction used by Marx, which are closely related. Abstractions are conducted and defined by the three modes. The mode of extension refers to the boundaries placed on a given abstraction in terms of time and space. Secondly, the mode of generality refers to the ability to concentrate on what is generally applicable in a given situation, and abstract out the rest. Thirdly, the abstraction of vantage point defines from what point of view within a relationship to consider the other parts of the relationship: in other words, it identifies what perspective a situation is being viewed from.\textsuperscript{130} All of these three modes define what is perceived and what is abstracted out, even though at all levels of analysis what is abstracted out is still part of the totality, and is still relevant.

To demonstrate how this could be applied to the particular questions raised in this thesis, the mode of generality, and the levels employed by Marx (as described by Ollman) are presented in Table 1.1:

\textsuperscript{129} Ibid., p 32.
\textsuperscript{130} Ibid., pp 41–2.
### Table 1.1 Levels of Generality

<table>
<thead>
<tr>
<th>Level of generality</th>
<th>Subject matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Whatever is unique about a person and situation (the here and now)</td>
</tr>
<tr>
<td>2</td>
<td>What is general to people, their activities and products during modern capitalism (last 20-50 years)</td>
</tr>
<tr>
<td>3</td>
<td>Capitalism as such – what is particular to people, their activities and products due to their functionality and appearance in capitalism</td>
</tr>
<tr>
<td>4</td>
<td>Class society – the period of human history during which societies have been divided into classes</td>
</tr>
<tr>
<td>5</td>
<td>Human society – all human beings and the entire history of humans</td>
</tr>
<tr>
<td>6</td>
<td>The animal world (shared qualities with animals)</td>
</tr>
<tr>
<td>7</td>
<td>Qualities as a material part of nature (weight, movement, etc)</td>
</tr>
</tbody>
</table>

Throughout this thesis, abstractions will be made at different levels. For example, the notion of the market can be examined at levels one to five: from a specific market or economy (level one); to the increased primacy of the market with the rise of neoliberalism (level two); to the appearance of a labour market (level three); to different forms of trade, barter or exchange (level four). The scope of the thesis is bound by historical determinants and does not extend to comments about human society (level five), but the point is that at any time, the focal length of analysis will vary (usually between levels two to four but occasionally including level one). Levels six and seven are less relevant to the types of issues we are likely to find Marx and other researchers discussing. Likewise, those that analyse society concentrating exclusively on levels one and five miss crucial parts of the picture:

Where Marx usually abstracts human beings, for example, as classes (as a class on level four, as one of the main classes that emerge from capitalist relations of production – workers, capitalists, and sometimes landowners – on level three, and as one of the many classes and fragments of classes that

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131 Ibid., p 52.
132 Ibid., p 53.
exist in a particular country in the most recent period on level two), most non-Marxists abstract people as unique individuals, where everyone has a proper name (level one) or as a member of the human species (level five). In proceeding in their thinking directly from level one to level five, they may never even perceive, and hence have no difficulty in denying, the very existence of classes.  

As Ollman goes on to say, it is not so much that one or another level is more “true” than the others (because they are all “true” insofar as people possess qualities that fall on each level of generality): rather, the crucial methodological point is to work out which level(s) of abstraction offer appropriate analytical leverage to specific questions. As noted above, Marx tends to use levels two to four, but in some instances considered levels one and five to be appropriate: however, when abstracting at these levels, the purpose tends to be descriptive rather than explanatory. Likewise, while other attempts at analysing contemporary policy making might focus on the unique parties or individuals in power, on the issues of the day as played out in the media, or alternatively be based on conceptions of human nature that are divorced from the other levels of abstraction, this thesis in the main eschews those approaches. While some analysis of the day-to-day politics of policy making is necessary, this analysis is carried out with a view to understanding the underlying balance of class forces, for example, and what the state is actually doing, rather than to find an individual or unique factor that has shaped policy making in a particular direction.

133 Ibid., p 55.
134 Ibid., p 55.
135 Ibid., p 56.
To illustrate this point further, it is useful to make a methodological distinction between transhistorical and historically specific categories. This distinction can be illustrated with reference to Table 1.1 above. The category relations of production, for example, can be employed at levels two, three and four, and clearly represents analyses at different levels of abstraction. For example, it can be used as a transhistorical category at level four to reflect the category’s basis in a class society:

Transhistorical categories, and the analysis of production in general in which they are grounded, are basic to the identification of the social forms which constitute Marx’s explananda. For it is only this analysis which enables him first to isolate, in any given empirical context, some set of phenomena as pertaining to production at all, and second, to distinguish, within these phenomena, attributes which pertain to production as such from attributes which stem from the particular relations of the mode of production of which these phenomena are manifestations.136

In other words, while the analysis of phenomena appearing at level two and level three is historically specific (to capitalism or to a particular stage in capitalist development, for example) but is underpinned and informed by the more abstract determination of relations of production that is employed at level four. It is important to remember, however, that the use of a category at one level of abstraction does not mean it is divorced from the same category at another level of abstraction: in fact, the opposite occurs. While historically specific categories are distinguishable from transhistorical categories, the latter provide the basis from which the former can be understood:

More generally, some such initial criterion of relevance would appear to be necessary to any empirical enterprise, since without one all phenomenal

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starting-points would be equally privileged and none would enjoy a secure rationale. In Marx’s case, the latter is provided by the claim... that the attributes of productive phenomena specified in his transhistorical categories are attributes which define classes of phenomena without which ‘no production would be thinkable’.\textsuperscript{137}

In an analysis such as this thesis, which uses empirical data to explain phenomena in a social iteration, the selection of that data and its interpretation should be informed by all three levels of abstraction: level two (the last 20-50 years); level three (capitalism as such); and level four (class society). This selection is made for the explanatory, rather than descriptive, options which are thereby released. Both transhistorical and historically specific categories are necessary to understand the totality.

**Conclusion**

In summary, this chapter has identified that the Marxist theoretical approach adopted presents some underlying assumptions that are employed though the analysis of policy–making in the specific New Zealand context. In essence, the state is a manifestation of the particular form of class relations (and underlying class antagonism) that exists in a given society, and seeks to preserve and advance the interests of that type of society as a whole. In capitalist societies, this entails ensuring the ongoing survival and vitality of capitalism. Underpinning this study of the Fifth Labour Government’s GIF is the understanding that the state is compelled to ensure that the economy can survive and even grow, and for that reason the state must strive to ensure its capitalists can accumulate an adequate rate of profit. However, the extent to which it can favour the interests of capital or any faction of capital vis a vis workers

\textsuperscript{137} Ibid., p 111.
or other capitalists will be dependent on the balance of class forces: and hence, will influence the particulars of policy-making in a given society.

This chapter lays the foundation for an empirical investigation and critical analysis of the Fifth Labour Government from a Marxist perspective. Marx’s critique of the capitalist mode of production provides detailed insight into both the dynamics of capitalist economies, and the social inequalities they generate over time. Given that the focus of this thesis is the role of the executive arm of the state in an advanced capitalist society, the material discussed in this chapter provides the theoretical framework and methodology to describe, explain and critically evaluate civil society in New Zealand. This chapter also provides the necessary conceptual background to understanding the theory of state, as it operates in all class societies to maintain, reinforce, and legitimise exploitative class relations. In particular, exploitation takes a particular form under capitalism which is distinctively different to that under slavery or feudalism. It is capitalist exploitation which underpins the contemporary class structure in New Zealand society, and forms the basis of class struggle, whether in the form of direct conflict or underlying capitalist relations.

The role of the state as a direct instrument of class rule needs to be rejected in the light of an acknowledgment that the state must have a degree of (relative) autonomy. The interplay of economic forces and tendencies of production, the class struggle, and the successful adoption of ideology to legitimise both the policy direction taken and the inequality generated by capitalist production are all essential elements of the class

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character of state power. However, these ideas need to be considered in light of the empirical evidence available concerning the operation of the contemporary capitalist economy, and the material advancement of class-based interests. To that end, as described in the methodology section, the thesis includes analysis of the SIAC consultation process, examination of key policy documents, commentary from members of key actors and representatives of major interest groups (both in the written commentary and media sources), and interviews with key actors. Finally, investigation of key statistical data will allow an assessment of the overall success or failure of the GIF, in terms of economic and social outcomes. In combination, these factors constitute a detailed empirical assessment of the Fifth Labour Government’s political legacy.

The Marxist approach used in this thesis is based on a critical realist interpretation of Marxist methodology. Methodological implications can be drawn from the critical realists’ exposition of the similarities and differences between the social sciences and the physical sciences. The retroductive research strategy is useful in understanding the limitations of our knowledge of observed phenomena, and reminds us to be careful about what constitutes “proof” of our explanations of observed phenomena. Likewise, rather than being reduced to analysing society using the individual as the basis for analysis, we should analyse society in terms of relations: in particular, those which persist over time. Marx’s materialist conception of history is useful in this regard, allowing for the identification of both historically specific and transhistorical categories, which help us to describe both the similarities and differences between different societies that appear over time. It is important to be careful about which level
of abstraction we are using: it is possible to be working on different levels simultaneously. Marx’s method contains some useful insights into the dynamics of social change, and different levels of abstraction allow for different kinds of understanding of social reproduction and transformation, providing useful methodological insights for a full and detailed empirical critique of the GIF.
Chapter Two

New Zealand’s Post-War Political Economy 1945–2008

Introduction

This chapter outlines the economic and political context in which to consider the Fifth Labour Government’s GIF. It does this firstly, by providing an historical account of economic conditions in section 2.1, and contrasts the post-war era in New Zealand into two epochs: the long boom or ‘golden weather’ of the 1950s and 1960s which was eventually undermined by the economic crisis that emerged in the 1970s, and the resulting attempts to manage the economic crisis that persisted through the 1980s and 1990s. This provides a useful period of recent historical contrast between social democracy and neoliberalism in the New Zealand context, as background for
understanding where public policy under the Fifth Labour Government stands in relation to historical experience.

A discussion of this shift allows for the development of a nuanced assessment of the particular approach to public policy adopted from 1999 to 2006. A central contention of this thesis is that the GIF represented a commitment of the Fifth Labour Government to the retention of neoliberalism, but on its own this is a simplistic description and does not provide a complete picture. Rather, it is useful to adopt Hall’s term of “variants” of neoliberalism that was outlined in the Introduction to accommodate the reality of nuanced differences between different applications of the neoliberal project.¹ In light of the concessions that the Fifth Labour Government did make in terms of adjusting elements of policy-making after the previous Fourth Labour and National Governments, a comparison of the earlier social democratic period and the initial neoliberal experiment with its subsequent extension provides a useful period of contrast in section 2.2 of the chapter.

The economic crisis that began in the 1970s resulted in an international intellectual abandonment of Keynesian demand management, and after being elected in 1984, New Zealand’s Fourth Labour Government adopted a neoliberal economic strategy, a key objective of which is to open New Zealand markets to the global economy in order to enhance productivity and the competitiveness of the New Zealand economy. Section 2.2 outlines elements of the shifting policy agenda to 1999. The implementation of this new policy agenda was so extreme and carried out at such a remarkable pace it has been described as revolutionary.² When the Fourth National

² For example, in 1996, a four-part television series aired, detailing the reforms; it was titled simply Revolution (written by Marcia Russell and John Carlaw and produced by Television New Zealand).
Government came to power in 1990, it continued to implement the neoliberal agenda vigorously. Subsequent governments continued with and extended this agenda until, in a climate of burgeoning outcomes that were unpalatable to a significant section of the electorate Labour was elected in 1999, in what — if not a clear mandate for Labour itself — was certainly a rejection of the National Party and an explicit sanction of the policies of the centre-left parties.

A central objective of this thesis is to clarify how the Fifth Labour Government’s policy agenda was influenced by neoliberalism. Although the Government and (others) described itself as implementing a return to social democracy, this thesis asserts that many of the core elements of the neoliberal reforms remained in place, illustrating the usefulness of the historical context presented in this chapter. One important point needs to be made in this regard: while the policy agenda continued to be largely neoliberal, and continued to concentrate on enhancing the global competitiveness of the New Zealand economy, innovation did not become an explicitly central part of the economic development strategy until the election of the Fifth Labour Government when attention became more directly focused on the notion of the knowledge economy. This is not to suggest that innovation-related policy did not exist previously, but that it was seen as a part of the picture rather than central to economic growth. Innovation policy certainly wasn’t immune to neoliberal reform, and this historical treatment of science, R&D and innovation is developed in a separate section in Chapter Three to give the topic due attention.

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Section 2.3 briefly considers the influence of the so-called “Third Way” on the Fifth Labour Government and reviews what other researchers have written about the Fifth Labour Government’s overall policy direction. It is argued that the Third Way concept is of limited use, in that though it has been used to describe such a diverse range of policy programmes there is no clear consensus about what it actually means, but more substantially, that the use of the term detracts from the extent to which neoliberalism remains a dominant ideological and intellectual force in policy making circles, within so-called “Third Way” thinking. This is a particularly salient point given that a number of historically social democratic parties around the world have embraced significant components of the neoliberal policy agenda.

2.1 The Onset of the mid-1970s Economic Crisis: The “Profit Squeeze”?

The post-war era can be divided into two epochs. As with most of the advanced capitalist economies, between World War II and the early 1970s, New Zealand was characterised by rapid economic expansion and prosperity, resulting in the period being referred to as the “Golden Weather” (a reference to a play called The End of the Golden Weather by Bruce Mason, about a young boy’s loss of innocence in the era of the Great Depression).4 This period of sustained and significant growth was combined with low inflation and virtually full employment, as is illustrated in Figure 2.1 below:

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The key macroeconomic variables of economic growth, inflation and unemployment provide a starting point for an examination of economic conditions. Figure 2.1 demonstrates the contrast between the period of the “Golden Weather” to the early-1970s, and the subsequent onset of economic crisis to 1999. There is general agreement that significant economic growth occurred during the post-war period, particularly after 1955. According to Wooding and the “official” Gross Domestic Product

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(GDP) series\textsuperscript{7}, the growth rate dropped below zero percent only five times in the 29 years running up to 1973, and four of these occasions occurred before 1953.\textsuperscript{8} This positive growth was combined with the absence of inflationary pressures. Inflation averaged 4.3 percent between 1960 and 1973, and by the standards of the 1970s and 1980s, this level was impressive. In more than half of the years between 1945 and 1967 the rate of inflation was below three percent, and when it did reach as high as five percent in 1960, it quickly dropped again.\textsuperscript{9} The period was also characterised by little or no unemployment: until 1968, the rate of unemployment did not exceed 0.1 percent, and did not surpass 1 percent until 1979.

The prosperity of the 1950s and 1960s proved to be unsustainable. The key macroeconomic indicators show that 1968 to 1973 was a period of transition. While the economy grew relatively quickly until 1968, the rate of growth slowed after that, from an average of 4.81 percent of Gross Domestic Product (GDP) between 1960 and 1967, to an average of 2.82 percent of GDP between 1968 and 1973.\textsuperscript{10} Inflation also increased rapidly, with rates around five percent until 1970, then reaching 9.6 percent by 1971 and remaining high throughout the 1970s.\textsuperscript{11} This put more pressure on real wages in consumption terms as the working class pushed for wage increases in line with price rises, which historically they had achieved.\textsuperscript{12} The term stagflation conveys the coupling of stagnant growth levels with inflation. It was not yet dire, but the signs of

\begin{itemize}
  \item \textsuperscript{7} Ibid.
  \item \textsuperscript{8} Wooding, P., 1997, \textit{Macroeconomics: A New Zealand Introduction}, p 329.
  \item \textsuperscript{9} Ibid., p 330.
  \item \textsuperscript{12} The distinction between real wages in consumption and real wages in production is important, and was explored in Chapter One. The working classes usually formulate their claims in terms of the first kind, their purchasing power, rather than with respect to their productivity.
\end{itemize}
crisis were beginning to show. In contrast, the rate of economic growth was lower in
the 1980s and 1990s, inflation reached unprecedented levels before becoming the
target of monetary policy in 1989, and unemployment steadily increased, peaking at
14.6 percent in 1993. The crisis period from the early to mid 1970s, which was not just
economic but also political, featured highly visible industrial unrest, in many respects
reflecting the international situation. This section outlines Marxist explanations for the
post-war era and the onset of conditions of economic crisis that emerged across the
OECD world during the mid 1970s, before considering the mainstream intellectual
shift from Keynesianism to neoliberalism that underpinned the policy response in
New Zealand from 1984.

As outlined in Chapter One, Marxist explanations of the emerging crisis consider
that the sources of the emerging crisis can be found within the capitalist system itself,
rather than as a result of external factors or the state’s management of the economy.
Instead, they point to the underlying contradictions of the process of capital
accumulation, and the tendency of the rate of profit to fall, which leads to recurrent
cri ses. A number of international studies have empirically operationalised Marxian
economic categories to explain the emerging crisis. For example, Goldstein has
highlighted the importance of what has been termed the “profit squeeze” by
reviewing what he calls methodological flaws in previous studies that reject the term,
and produces new estimates of data related to the cyclical (as opposed to secular)
profit decline for the United States economy, and argues that for the period of 1949 to
1980, the data provides a “viable explanation of economic crisis over the entire
period”.13 Webber and Rigby conducted a comparative study of Australia, Canada,
Japan and the United States manufacturing sectors, and concluded that the

of Radical Political Economics, Volume 28, number 55, p 87.
underlying change in the economies in the study was due to a fall in profitability driven by the increasing value composition of capital. Shaikh and Tonak disaggregated national accounts for the US economy and found that over the post-war era, the rate of profit declined. More recently, a study published in the Review of Radical Political Economics found “weak evidence of a long-run downward trend in the general profit rate for the U.S. economy for the period 1948-2007”. In other words, internationally these changing economic conditions are explained by that key aspect of Marxist crisis theory that centres on the tendency of the rate of profit to fall.

In the New Zealand case, three major studies into this topic have been carried out from a Marxist perspective, and have appeared in postgraduate theses. Pearce’s analysis of New Zealand factory production from 1923 to 1970 provides historical background to the more recent studies. Within the defined period he identifies two epochs: 1923 to 1947 and 1947 to 1970. This study suggests that capital accumulation occurred at a much faster rate during the postwar years than in the earlier epoch. According to Pearce, the capital stock doubled from 1923 to 1947, but from 1946 to 1970 it more than trebled. The absolute mass of capital, indexed with 1923 as the base year at 100, rose to almost 200 by 1947, but to 800 by 1970, with most of the increase occurring between 1959 and 1967.

18 Ibid., v. 1, pp 418–20.
19 Ibid., v. 1, p 422.
exceeded 10 percent only two out of twenty-four years before 1947, but eleven out of twenty-three years to 1970.\textsuperscript{20}

Capital accumulation does not occur in a vacuum: the rate of capital accumulation is influenced by the assessment of potential profit by investors. During the long boom, the organic composition of capital (or the ratio of constant to variable capital) rose. In factory production it was 12.45C:1 V in 1945, and rose to 18C:1V in 1962, where it remained stable for the next few years.\textsuperscript{21} Because surplus value only comes from labour power (variable capital), profitability is under increasing pressure under these conditions. The overall tendency was for the rate of profit to fall until the end of the 1950s, with a short-lived increase to the mid 1960s, declining again after that.\textsuperscript{22} For profitability to be maintained during conditions of a continued increase in the organic composition of capital, the rate of exploitation has to be increased, that is, more surplus value appropriated from the working class. In the case of factory production, the rate of exploitation increased steadily for the period covered by Pearce’s study. In 1925, surplus labour was estimated to be 3.5 hours of every 10 worked, but by 1970 this had increased to 8.4 hours out of every 10.\textsuperscript{23}

Pearce’s work provides some insight into the relative economic success story of the post war long boom and suggests the cause of its collapse, but does not tell us anything about what has happened since then. Both Cochrane and Cronin continue on from Pearce’s work, although employing different methodologies. Cochrane uses

\textsuperscript{20} Ibid., v. 1, pp 420–2.
\textsuperscript{21} Ibid., v. 1, pp 437–9.
\textsuperscript{22} Ibid., v. 1, p 443.
\textsuperscript{23} Ibid., v. 1, pp 447–9. The author goes on to argue that during the period from 1945 to 1962, a significant increase in the amount spent on additional or new machinery, or a relatively intensive period of production mechanisation took place, which may have aided in increasing the rate of exploitation, and thereby assisted in prolonging the long boom (see p 475).
Moseley’s methodology to re-aggregate data assembled by Philpott. The results corroborate Pearce’s finding that the organic composition of capital increased through the 1950s and 1960s, which is reflected in what Cochrane terms the “Marxian” (as opposed to conventional) rate of profit, from an average of 37.3 percent over the period from 1950 to 1974, to 28.7 percent in the period 1970 to 1974. From the mid-1970s the rate of profit remained quite stable, only increasing substantially from the mid-1980s onwards.

Although the profit rate increased over the late eighties and early nineties to 1994, it did not reach the level achieved in 1974, let alone the higher rates experienced in the earlier years of the post war long boom. Cochrane argues that the overall decline in the profit rate, as well as the inability to restore profit levels to previous levels, can be attributed to the growth in the value composition of capital. His work also highlights that the class struggle is a key determinant of fluctuations in the rate of surplus-value. Investment in fixed capital aimed at increasing labour productivity can also determine changes in the rate of surplus value if it results in labour productivity increasing relative to real wages. In this sense, looking at the relationship between productivity and the real wage rate, and how these coincide with the rate of profit is highly illuminating. Charts Five and Six in Cochrane’s thesis are very illustrative of this relationship. In a sense, the ratio of productivity to the real wage rate in

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26 This is most clearly illustrated in Chart Seven of Cochrane, 1997, Provisional Estimates of Some Marxian Econometric Variables, p 144.
27 Ibid., pp 114–2.
consumption terms can be used as a proxy for the rate of exploitation.\textsuperscript{28} From 1950 to 1970 (that is, during the long boom), the ratio of productivity to the real wage rate (measured in consumption terms) varied over time but was overall relatively stable, peaking at 3.15 in 1951,\textsuperscript{29} whereas between 1970 and 1971 it declined significantly, a trend which continued until 1975 (from 2.77 to 2.43).\textsuperscript{30} As with other countries that were subjected to a profit squeeze, this development coincided with a period of industrial and political unrest, and subsequently also a substantial (rather than steady, as had been the trend from 1950 to 1970) increase in real wages in the early 1970s: from NZ$5.34 in 1970 to NZ$6.40 in 1975.\textsuperscript{31} In direct contrast, the same ratio remained quite stable to around 1983, in which year it was 2.83, before increasing substantially to reach 3.39 by 1986, a level previously unseen over the time period. Although it remained quite stable until 1990, it then increased substantially again to reach 3.82 in 1994, when the time period covered by the study finished.\textsuperscript{32} Again, this makes sense when considering the specific details of the period in terms of the introduction of widespread political reform that constituted a sustained attack on the working class and its ability to engage successfully in industrial action. There was rising unemployment to the mid 1990s and subsequently the erosion of real wages (according to Cochrane's data, real wages began to decline in 1989).\textsuperscript{33} As Cochrane puts it:

Much of the thrust of the restructuring of the New Zealand economy, certainly since 1984, has been focused, in my humble opinion, on reducing the real wage and increasing the productivity of labour. In Marxian terms

\textsuperscript{28} As noted in Chapter One, there are limitations with thinking of exploitation as related to consumption alone, rather than in terms of the appropriation of surplus value defined more accurately in terms of the production process.


\textsuperscript{30} Ibid., pp 111–2.

\textsuperscript{31} Ibid., pp 111–2, 141.

\textsuperscript{32} Ibid., pp 112 & 142.

\textsuperscript{33} Ibid., p 111.
increasing the rate of surplus value. At best my results indicate that these efforts have stabilized the rate of profit at a level substantially below the average rate that prevailed in the pre 1970 period. This does not argue well for the future stability of the New Zealand economy as while economic stability is not reducible to any single factor considerable evidence exists to link low levels of profitability to systemic instability…

Finally, Cronin used a methodology derived from Shaikh and Tonak’s 1994 book *Measuring the Wealth of Nations* to re-aggregate national accounts for the New Zealand economy, employing the classical distinction between productive and non-productive labour. This allows for transactions that are secondary to the underlying realisation of value to be excluded, and the underlying tendencies of capitalist production to be exposed:

Outside the process of value production and realisation, but included within the neoclassical definition of production, are payments made for ground rent, interest, patents and taxes. These are not part of the process of value production but rather a later redistribution of already produced value… These secondary monetary flows are part of the total transactions in the economy, and thus included in official national accounting, but they are not part of total value.

Cronin extends Pearce’s study and argues that in failing to account for the distinction between productive and unproductive labour, Pearce’s study overstates variable capital and understates surplus value, the result of which is that his identification of a rise in the value composition of capital in the 1950s and 1960s is misleading. The time frame of Cronin’s study did not begin until 1972 and therefore the results are not directly comparable, however, the results do present a similar picture. According to Cronin, profitability was compromised further during the period from 1972 to 1983 by a rise in the value composition of capital (from a 1972 index value of 100 to 118 in

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34 Ibid., p 74.
1983: see Figure 2.2) rather than with a direct decline in the rate of surplus value (from index value 100 in 1972 to 95 in 1983). Subsequently, Cronin argues that even when the rate of surplus value was revived from the mid 1980s, this was not sufficient to counteract a renewed rise in the value composition of capital.\textsuperscript{36}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{Principle Value Ratios according to Cronin 1972 to 1996 (indexed to 1972=100 and as percentage values)\textsuperscript{37}}
\end{figure}

\textsuperscript{36} Ibid., pp 145 & 155.

\textsuperscript{37} Ibid., p 145.
Essentially, although Pearce, Cochrane and Cronin disagree on the exact details, they all consider that the economic crisis in the mid-seventies was not a spontaneous event or driven entirely by a changing external environment, but rather was induced by an increasing organic composition of capital which eventually undermined profitability.

However, Marxist explanations of the emergence of economic crisis in the 1970s were not intellectually or politically dominant. There is broad agreement between monetarists and Keynesians that New Zealand’s economic performance was affected by a number of external shocks during the 1970s and 1980s. Specifically, the entry of Britain to the European Economic Community (EEC) led to the United Kingdom’s sourcing imports to the detriment of New Zealand trade.38 These explanations reflect a reliance on what have been termed state management theories of the economy. State management theories take existing relations of production as given, without interrogating them or questioning whether they are historically specific and/or transitory. They consider the economy to be buffeted by external shocks, but put explanatory primacy on what role governments play in “managing the economy”.39

The neoliberal argument, which became dominant during the 1980s, was that Keynesian demand management had led to ad hoc and unpredictable levels of state intervention and that the form and level of regulation that had characterised New Zealand prior to 1984 had created uncertainty. This development had in turn inhibited investment and consequently New Zealand did not achieve its full potential for economic growth even during the golden weather.40 Political and economic reform from the mid 1980s sought to solve this problem by striving to revive productivity,

39 Ibid., p 12.
40 Ibid., p 8.
profitability and the global competitiveness of New Zealand’s economy. The dominant school of economic thought through the golden weather had been Keynesianism combined with protectionism in the form of tariffs and import licensing. With the shift to neoliberalism the primary focus of economic and political policy became the need to address New Zealand’s declining global competitiveness, and open up New Zealand markets to international competition. While neoliberal scholars did not address this issue in Marxian terms, they did address and indeed became focused on the problems experienced in the production process and most notably on the declining rate of productivity growth.

Figure 2.3: Annual Percentage Change in Labour Productivity 1960—1981

While the picture presented in Figure 2.3 is mixed, there is a clear decline in the rate of productivity growth from 1973 onwards. Although there is an increase at the beginning of the 1980s, it is of small magnitude after a period of such decline. This

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42 Ibid., p 122.
situation provides some of the context for the implementation of neoliberalism and will be returned to in the next section, and then in Chapter Seven when evaluating the success of the GIF.

A major way in which the productivity issue was becoming obvious was associated with the rise of industrial unrest in the latter half of the 1960s. Since inflation was increasing, workers were feeling the effect and were continuing to demand wage increases to at least cover inflation, to which they had become accustomed during the golden weather. Class interests and struggle as played out in industrial disputes, are clearly shaped by the underlying state of capital accumulation. The ability of employers to continue to pay employees and maintain or improve their working conditions depends on their ability to make a profit. In this case, the relative profitability of capital accumulation was placing limits on the ongoing sustainability of increasing real wages within capitalist relations of production, and given the declining productivity illustrated in Figure 2.3 above, this was becoming problematic for employers when accumulation was being undermined. Some have described the combination of both rising inflation and emerging (still relatively low) unemployment as creating the conditions for rethinking the focus of economic policy from the demand to supply side, as if the answer to the crisis was simply about getting the economics right. However, this emergence of a visible struggle reflects the inherent limits and contradictions of the capitalist mode of production, and it would also be a mistake to consider industrial upheaval and wider social upheaval as separate and isolated events. Roper points to the growing inequality between classes, gender, and

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43 For example, see Bertram, G., 1997, “Macroeconomic Debate and Economic Growth in Postwar New Zealand”, in Rudd, C., and Roper, B. (ed.), *The Political Economy of New Zealand*, Oxford University Press, Auckland, pp 45–6. He portrays the Philips curve relationship between inflation and unemployment using a metaphor of demand side (the waves), breaking against the supply side (the shore). The idea is that in the 1970s, all over the OECD, the shore became rocks through a series of supply side shocks, resulting in the reversal of the demand management agenda.
ethnicities as important observable trends within New Zealand society, while also reminding us of the wider context of the rise of the New Left internationally.\textsuperscript{44}

The implementation of the neoliberal agenda transformed New Zealand’s social fabric significantly. The gap between rich and poor widened and the interests of business are far more likely to influence policy formulation than those of the general population. Part of the explanation for this transformation lies in the specific circumstances of Robert Muldoon’s Third National Government: its seemingly ad hoc economic management in the form of inconsistent regulation and intervention\textsuperscript{45} set the stage for change, creating enough instability to make room for a major policy redirection. Personalities and the quirkiness of a particular unfolding of events are not enough to explain what some neoliberals described as a revolutionary transformation (or alternatively, and more accurately, as a ruling class offensive designed to reverse the decline in the rate of profit\textsuperscript{46}). However, the particular programmatic lacunae at that time provided specific conditions of the political economy which invited change, and allowed the proponents of the reform agenda to seize the opportunity. As Evans, et. al. describes the mood prior to reform:

The early pace of the reforms reflects in good part the deep-seated nature of the initial crisis, widespread recognition, particularly in the business community, of the need for change, strong intellectual and administrative support from key public sector advisers and New Zealand’s constitutional arrangements.\textsuperscript{47}

The neoliberal agenda had a dramatic effect on class inequality in New Zealand, and represented a determined class offensive that aimed to revive profitable capital

\textsuperscript{44} Roper, B. S., 2005, \textit{Prosperity for All?}, pp 93–6.
\textsuperscript{46} Ibid.”, pp 20–1.
accumulation and productivity. While economic growth in GDP terms was not substantially or permanently revived, it is useful to mention that the reform programme did have a positive impact on labour productivity. Table 2.1 provides three different estimates of labour productivity growth for New Zealand for the period immediately preceding the onset of crisis to 1995:

<table>
<thead>
<tr>
<th>Period (June Years)</th>
<th>Range</th>
<th>Employment-Based Average</th>
<th>Hours-Based Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-1984</td>
<td>0.66-0.84</td>
<td>0.75</td>
<td>*</td>
</tr>
<tr>
<td>1984-1991</td>
<td>0.76-1.17</td>
<td>0.97</td>
<td>1.01</td>
</tr>
<tr>
<td>1991-1995</td>
<td>1.65-1.80</td>
<td>1.72</td>
<td>1.80</td>
</tr>
</tbody>
</table>

*Not available for the full period. During 1975-1984 the hours-based measure rose by 0.43 percent p.a. less than the employment-based average for the same period.

The most important point to note about the labour productivity measures is that the reform period did lead to increased labour productivity from 1984, but most of the increase appears to have occurred as a result of the introduction of the Employment Contracts Act in 1991, which is also attributed with decreased labour costs, including those of hiring workers.49

2.2 Changing Political Economy in the Post-War Era 1945—1999

As outlined in section 2.1, the end of the golden weather and emerging economic crisis in the 1970s set the scene for the transition from social democratic Keynesianism to neoliberalism in many of the advanced capitalist economies. This section outlines the changing political response to the economic crisis in New Zealand, and contrasts

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the previously accepted Keynesian demand management approach to the economy to the implementation of neoliberalism characterised by supply side economics that was implemented in New Zealand from 1984 onwards. While this experience was not unique to New Zealand, it did take a particularly robust form.

While New Zealand gained international attention for having one of the highest standards of living in the world in the 1950s, it developed a new reputation for the neoliberal fundamentalism that permeated policy making from 1984, due to both its speedy implementation (the *Economist* described New Zealand as a “trailblazer of economic reform”\(^5\)) and its systematic application to most areas of policymaking possible. Many mainstream economists from all over the world have applauded these efforts, citing New Zealand as both a leading example of not just how to liberalise an economy and to so with a level of enthusiasm it was described as “out-Thatchering Mrs Thatcher”\(^5\). As Evans, et. al. note:

Following the foreign exchange crisis of July 1984, New Zealand embarked on what evolved into one of the most comprehensive programs of economic reform of any OECD country in recent decades. Henderson (1996, p. 10) commented that, while other OECD countries have carried out, in varying degrees, radical financial market reforms, privatized and deregulated industry, liberalized international trade, reformed public finance, and markedly deregulated labor markets, “Looking across the whole range of economic policies, no other OECD country has such a portfolio of liberalizing measures to show.”\(^5\)

Until the snap election of 1984 both Labour and National governments in New Zealand followed Keynesian policy programmes, prescribing an active role for

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government in managing the economy, as the economic system was considered inherently unstable. For Keynesians, recessions are caused by deficient demand which requires the state to actively stimulate and manage demand in three key ways:

1. government spending via investment projects (but also to redistribute income through welfare provision, including housing, health and education);

2. protectionist policies for the benefit of local industries: establishing complex systems of tariffs and subsidies to limit foreign trade and discourage competition, directing investment in agriculture and manufacturing (in other words, those industries considered to be productive, and therefore good for the economy), and regulating financial markets to control their impact on the local economy and;

3. income protection in various forms, including a centralised approach to wage bargaining, combined with comprehensive (compulsory) union membership.\(^53\)

In direct contrast, immediately after the election in 1984, the Fourth Labour Government embarked on a policy programme underpinned by neoliberalism and monetarist economics that was focused on supply rather than demand. Instead of the state actively managing the economy, the unbridled faith in the market that forms the cornerstone of neoliberal policies prescribed a much reduced and rule-governed role for the state in economic management and an expanded role in increasing productivity and profitability. Conversely, a shift in focus to maintaining price stability played a central role in reducing the role of the state in pursuing full employment and subsequently increased the reserve army of labour, in order to make the labour market more flexible and competitive. The concrete policy agendas that

\(^53\) A useful overview of these policies in the New Zealand case can be found in Roper, B. S., 2005, *Prosperity for All?*, pp 129–137. It also contains analysis of the theoretical underpinnings of the policies. See also Stilwell, F. J. B., 2006, *Political Economy: the Contest of Economic Ideas*, chapter 29 (pp 261–8).
derive from this broad conceptualisation of the market economy and the role of the state vary according to specific circumstances. The five fundamentals of the New Zealand neoliberal experiment identified by Kelsey include the liberalisation of domestic markets and trade, a reduction in the size and scope of the state, the pursuit of price stability, labour market deregulation, and fiscal restraint. Central to all of these policy areas was a desire to open up large parts of the economy to the efficiency of the market and to global competition.

The liberalisation of trade was aimed at eliminating state protection of domestic markets, which had been a mainstay of economic policy and existed in the form of a complicated system of tariffs and subsidies aimed at import substitution, the heavy regulation of international trade, and an exchange rate regulated by the Minister of Finance. Immediately following the July 1984 election, the exchange rate was devalued by twenty percent, and in March 1985, it was announced that the value of the New Zealand dollar would be determined by the interaction of supply and demand: in other words, left to the forces prevailing in foreign exchange markets. While in part these policies represented the response of a government in crisis mode, they were important first steps in opening the New Zealand market to foreign competition and ensuring the eventual global competitiveness of the New Zealand economy.

The refocusing of the state in size and scope largely centred on commercialising state assets, corporatising state trading activities and privatising many of the remaining government agencies (the terms “commercialisation”, “corporatisation”

55 Ibid., p 86.
and “privatisation” have been interchanged frequently without being well-defined, sometimes in a quite misguided manner). This theme eventually led to state assets being made commercially viable and then, despite promises by the Government to the contrary, sold off in whole or in part to corporate interests. These elements characterised the post-1984 policy agenda in New Zealand, and have been discussed elsewhere in the literature. Given the focus of this thesis on social inequality, the policy shift to market primacy and stability will be explored briefly through three main areas of reform that have had the most significant impact on social outcomes: the abandonment of full employment, the introduction of regressive taxation and punitive welfare reform, and the deregulation of the labour market. These activities subsequently had an adverse impact on the rights of workers and induced a picture of growing social inequality through the 1980s and 1990s.

2.2.1 The Relationship between Inflation and Unemployment

As indicated in Figure 2.1, the post-war period of prosperity was characterised by little or no unemployment, but this began to change in the 1980s. Prior to 1989, government economic policy explicitly aimed to maintain full employment: this was a Keynesian/social democratic ideal, but was ultimately was made possible by profitable capital accumulation, and seen as desirable in the wake of the experience of


58 See, for example, Bollard, A. et.al. (eds), 1987, Economic Liberalisation in New Zealand, Allen and Unwin, Wellington; Massey, P., 1995, New Zealand: Market Liberalization in a Developed Economy, MacMillan, Great Britain.
high unemployment experienced during the Depression of the 1930s.\textsuperscript{59} Full employment was achieved by government intervention in what has been described as a “reconstruction” approach to industry.\textsuperscript{60} The dominant school of economic thought after the Depression was Keynesianism, which was largely concerned with demand stimulation and was consistent with industry development and protection, particularly from the relentless competitive pressures of foreign markets. The government achieved its goals by establishing protective tariffs and import licensing, and promoting New Zealand’s major export industries through marketing boards. Though facilitating productivity growth was recognised to be an important activity this was not considered a primary goal partly because relatively high rates of productivity growth were the norm and because New Zealand industry was highly protected from international competition.

Full employment had a positive impact on government finances and was politically convenient: in March 1956, there were five people collecting the unemployment benefit and politicians joked at the time that they knew the unemployed by name.\textsuperscript{61} The notion of full employment as a policy priority was underpinned by a conviction that people had a right to income security. More fundamentally, it provided strength to the working class in the form of both stable employment opportunities (if a job was unbearable, there was a good chance of finding another quickly) and a strengthened position to negotiate working conditions. Between 1955 and 1968, the number of people registered as unemployed only went over 1,000 twice (in 1960 and 1963).\textsuperscript{62} However, by the 1970s profitability was

\textsuperscript{60} Ibid., p 24.
\textsuperscript{61} Ibid., p 26.
becoming increasingly fragile and the ability of employers to advance increases in nominal wages was becoming increasingly compromised and this saw unemployment begin to rise together with a reduction in real wages.63

Through the years of the post-war boom governments had responded to increasing unemployment by stimulating demand and by tolerating higher inflation rates. The Fourth Labour Government abandoned this tradition favouring instead the minimisation of inflation and the enhancement of international competitiveness. The Reserve Bank Act 1989, in conjunction with the Policy Targets Agreement, set the target inflation rate at between 0 and 2 percent, and defined this as the only major objective required of the Reserve Bank. This was probably the defining moment signaling a clear shift to monetarism. This can be seen in the accepted Phillips curve relationship between inflation and unemployment, demonstrated in Figure 2.4 below. Many mainstream economists accept a trade off relationship between unemployment and inflation, following the possible combinations presented in the Phillips curve. Generally this is regarded as a balancing act, but the Reserve Bank Act 1989 clearly signalled a lack of concern with maintaining full employment or even attempting to reduce unemployment. Price stability became the first priority.

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The institutionalised commitment to full employment followed through the long boom was gradually abandoned from the middle of the 1970s, and then decisively rejected from 1984 onwards when unemployment reached an historical high, surpassing five percent of the labour force. Subsequently, as shown in Figure 2.4, unemployment increased substantially during the 1980s, while inflation dropped substantially. There is an accepted trade-off between inflation and unemployment, at least in the short term. The passing of the Reserve Bank Act 1989 was designed to minimise inflation, and this emphasis combined with the economic crisis meant that unemployment continued to grow, with the number of registered unemployed peaking at 218,700 or 14.6 percent of the labour force in 1993, and remaining in double

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figures for most of the 1990s. In other words, the process of disinflation had a dramatic effect on the working class by generating a sharp rise in unemployment. As was intended, the creation of a substantial reserve army of labour placed downward pressure on demands for improved wages and conditions and provided an ominous reminder of the possibility for job loss in an era of public sector restructuring and layoffs. These conditions also contributed to the international competitiveness of the New Zealand labour market: as indicated in Figure 2.5 below, the real cost of labour remained stable through the period of the late 1980s and the 1990s. This is significant in terms of worker exploitation because it coincided with an increase in labour productivity.

![Figure 2.5 Real Wage of Firms Index](image)

It should also be noted that there is a tendentious statistical anomaly about these descriptors. The official unemployment rate (calculated by the Household Labour Force Survey) is actually lower than the number of registered unemployed, which in

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65 All data is from Dalziel, P. and Lattimore, R., 2001, *The New Zealand Macroeconomy: A Briefing on the Reforms and their Legacy*. For unemployment, see p 136, for the rate of inflation, p 138.


67 Ibid., p 159.
itself is problematic. In addition, the number of registered unemployed is a measure which estimates unemployment at a lower level than it actually is.\textsuperscript{68} There is an even higher measure of unemployment known as “jobless” collected by Statistics New Zealand that includes discouraged job seekers. Thus, the actual number of unemployed is likely to be significantly higher than the recorded figures.

2.2.2 Labour Market Deregulation

In addition to rising unemployment, another sign that the golden weather was ending was the rise of industrial unrest in the latter half of the 1960s. During the period of the long boom, industrial relations took place within the context of compulsory arbitration and conciliation, which was widely considered to contribute to industrial peace by containing the bargaining power of labour in a time of full employment. During the 1950s and 1960s, the number of industrial disputes and work stoppages were low, and tended to be concentrated in a few specific industries (traditionally these were meat freezing, construction, and transport). However, during the 1960s, strike activity began to increase, and the number of workers involved and the number of working days lost also increased substantially from 1965 onwards.\textsuperscript{69}

While the Industrial Relations Act did not supersede the Industrial Conciliation and Arbitration Act until 1974, the traditional practice of arbitration effectively ended with the militant reaction of workers to the Arbitration Court’s “nil decision” of June 1968.\textsuperscript{70} Concerned about the recessionary economic conditions of 1967 and 1968, the

\textsuperscript{69} Howells, J., 1974, “Industrial Conflict in New Zealand – the Last Twenty Years”, in Howells, J. et. al. (eds), Labour and Industrial Relations in New Zealand, Pitman, Victoria, p 164.
Arbitration Court (with the union representative dissenting) failed to concede any increase to general wages. This resulted in the unusual move of a combined application from the Employers' Federation and the Federation of Labour for a 5 percent general wage increase, which was successful. Although this decision was initially supported by both employers and the Government, it undermined the confidence of rank-and-file union members in the Arbitration Court and contributed to a shift by unions towards more direct negotiation with employers, including direct action. Underlying the industrial relations statistics are the experiences of real people: a picture of compounding worker frustration, leading to the rejection of trade union leadership by increasingly militant rank and file members, dissatisfied with the centralised nature of the wage bargaining system:

This strike wave was the beginning of the most significant upturn in the level of working class struggle that New Zealand has witnessed since European settlement in the mid-nineteenth century. The strike waves of 1969-70, 1973 and 1976-77 were driven from below. The rank and file militancy of workers, reinforced by the experience of successful actions taken then in the recent past, fuelled these strikes. Workers newly awakened awareness of their collective strength and confidence in their ability to struggle and win transformed the political environment of New Zealand in the late 1960s and the first half of the 1970s.71

The confidence was soon to be undermined. Class interests and struggle as played out in industrial disputes, are clearly shaped by the underlying state of capital accumulation. The ability of employers to continue to pay employees and maintain or improve their working conditions depends on their ability to make a profit. In this case, the relative profitability of capital accumulation was placing limits on the ongoing sustainability of increasing real wages within capitalist relations of production. However, as we saw in Figure 2.3, the rate of productivity was declining

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and hence firms were finding it increasingly difficult to redistribute output in the form of wage increases and the ability to accumulate profit was becoming more problematic. In the context of the aftermath of the golden weather, the expectation of wage increases had become automatic on behalf of workers.

With declining productivity and profitability employers became convinced the power of unions needed to be broken and the bargaining power of labour stemming from full employment needed to be diminished. Until 1987, successive governments had adhered to the three basic principles governing industrial relations in New Zealand: exclusive rights of union representation (a worker could belong to only one union at a time to keep industry coverage from overlapping); blanket coverage of any negotiated terms and conditions; and compulsory arbitration. The Fourth Labour Government began dismantling this program by abandoning compulsory arbitration. The Labour Relations Act 1987, decreased access and rights of workers and this erosion was continued during the first term of the Fourth National Government. The Employment Contracts Act 1991 stripped away what was left of the arbitration system and blanket coverage, made compulsory union membership illegal, and led to the entrenchment of free-riding via the provision that individual contracts could not be inferior to collective contracts. It shifted the emphasis from collective to individual contracts. The Act greatly increased the legal restrictions on industrial action, it becoming illegal to strike when a collective employment contract was in place and industrial action was only legal during the negotiation of a new or expired contract. Individual contracts could not be subjected to industrial action at any time. All grievances were to be settled by the Employment Tribunal and the Employment


73 Ibid.
Court, which meant the state colonised what had formerly been, in part, a union responsibility. Effectively, this further undermined the role of trade unions and collective bargaining.\textsuperscript{74} The Employment Contracts Act also had the effect of reducing the potential costs of labour, by taking power to bargain collectively for terms and conditions, including wages, and introducing flexibility to the labour market, an attribute that improved New Zealand’s attraction as a place to invest.\textsuperscript{75}

The impact of the Employment Contracts Act 1991 is demonstrated in Figure 2.6. During the early to mid 1980s the number of complete strikes remained quite high. In 1985, for example, 370 complete strikes were called, and in the same year eight lockouts occurred.\textsuperscript{76} The number of strikes dropped but remained significant, with between 100 and 200 strikes a year called between 1987 and 1990. After the Employment Contracts Act 1991 was introduced the numbers dropped significantly and this lower level of activity is observable up to 1996. From 1997 onwards there were less than 40 strikes per year. There were a number of lockouts in the early to mid-1990s, but the incidence of these also fell sharply.\textsuperscript{77}

\begin{footnotesize}
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\item \textsuperscript{74} Ibid., p 196.
\item \textsuperscript{75} See for example Barry, A., 1996, \textit{Someone Else’s Country}.
\item \textsuperscript{76} Sourced from various issues of \textit{Monthly Abstract of Statistics} series (later \textit{Key Statistics} series), published by Statistics New Zealand, Wellington.
\item \textsuperscript{77} Ibid.
\end{itemize}
\end{footnotesize}
It should be noted that these figures do not reflect the growing centralisation of union membership during the 1980s and 1990s: as union membership declined, smaller individual unions became absorbed into larger unions, which led to a lower number of strike actions called as a result of fewer unions. Likewise, the number of workers involved and working days lost were underrepresented because of the changing nature of industrial action: more moderate forms of action are not included in these statistics.  

The term used changed during 1976. The earlier measure of direct strikes was recorded separately from sympathetic strikes. To ensure consistency with the later measure of complete strikes, the two have been combined for this Figure.  


This increasingly bitter and intensive climate of industrial action that unfolded in the 1970s was not limited to New Zealand; rather it echoed the international situation:

the international political situation in the late 1970s and early 1980s was shifting in favour of capital... Following the upturn in class struggle which characterized the western capitalist countries from 1968 to 1976, the international working class entered a long period of defeat and demoralization... Levels of strike activity in Australia, Britain, Canada, France, West Germany, Japan, and the U.S. during the first half of the 1980s fell to levels much lower than those which prevailed during the upturn in class struggle in the first half of the 1970s. From the perspective of the working class, the period from the late 1970s to the late 1980s clearly involved a major downturn in the level and nature of the class struggle.\(^{81}\)

Fundamentally, the statistics reflect the changing balance of power between employers and workers as the prolonged economic crisis unfolded from the 1970s onwards. The central issue was the determination of wages in a time of high inflation, coupled with, at least initially, workers being in a strong position in the labour market, although this was soon undermined by a situation of rising unemployment. Boston describes this struggle as being focused around the determination of incomes policy, as the Third National Government struggled to control wages through the implementation of wage controls and price freezes. This struggle has been discussed elsewhere.\(^{82}\) In essence, this was a period marked by the advent of an economic and social crisis, which led into a period of transition for the state, in which new ways of controlling wages were implemented in order to increase profitability and revive economic growth.


2.2.3 Welfare Reform and the Fiscal Responsibility Act 1994

The adoption of Keynesian demand management and the commitment to full employment coincided with the construction of a social democratic welfare state that largely conforms with the description provided by Rudd. The latter refers to a broad definition of the welfare state, extended to cover not just minimal transfer payments but also including policies that are designed to protect people from the “unwelcome effects of the operation of market forces”, and to compensate those who have been affected, based on an appreciation of a right to a “decent” standard of living.\(^3\) This type of welfare state has the potential to impact significantly on the general standard of living. Historically, the welfare state in New Zealand has often been described as generous or extensive in international terms, and was most comprehensive and universal from the late 1930s to the early 1980s. The Social Security Act of 1938 introduced a wider range of specific benefits, as well as securing the pension as a right of citizenship, rather than being based on the ability to pay into a contributory insurance scheme.\(^4\) Further developments in welfare provisions tended to take the same form, manifesting in flat rates for benefits, the removal of means testing, and the extension of benefits to cover wider groups, often being made universally available. Significantly, though, Rudd describes the benefits as mixed, spurring a sense of stratification:

The golden weather shone rather more brightly on the ‘typical’ family headed by an able-bodied, unionised, award-covered, waged working male, than it did on those who did not fall into such a category. It was not a welfare regime that de-commodified labour and it fostered stratification by


\(^4\) Martin, J., 1981, “Economy, State and Class in New Zealand”, in *State Papers*, Department of Sociology, Massey University, Palmerston North, pp 60–1.
creating inequalities between workers in different occupations, between unionised and non-unionised workers, between owner-occupiers and state house tenants, and between males and females.\textsuperscript{85}

In 1950, government expenditure was around 34.4 percent of GDP, and it remained at this level throughout the 1950s and 1960s, sitting at 33.2 percent in 1973.\textsuperscript{86} There was a general trend upwards in social spending as a percentage of GDP (comprising health and education spending as well as social security payments and other social spending), as seen in Figure 2.7.\textsuperscript{87}

\textbf{Figure 2.7 Categories of Government Expenditure as a Percentage of Gross Domestic Product 1950-1973}\textsuperscript{88}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.7.png}
\caption{Categories of Government Expenditure as a Percentage of Gross Domestic Product 1950-1973}
\end{figure}


\textsuperscript{86} Martin, J., 1981, “The Modern Welfare State and Expenditure in New Zealand”, in State Papers, Department of Sociology, Massey University, Palmerston North, Appendix Table 9, p 12.

\textsuperscript{87} Ibid., Appendix Table 9, p 12.

Over the period of the long boom, social spending increased from 46.2 percent of total government expenditure in 1960 to 56.2 percent in 1973.\textsuperscript{89} In terms of the entire economy, this increase was less pronounced with total welfare expenditure as a percentage of GDP increasing from just below 13.2 percent in 1950 to 15.9 percent in 1973 (a figure which began to increase at a faster rate in subsequent years). This increase in welfare expenditure, as a percentage of GDP, is at least partly explained by declining growth rates and does not in itself mean that there was a substantial nominal increase in the amount spent on welfare. However, there was an increase in government expenditure over the period in real terms, as it has been deflated to 1965 prices. In 1960, the state spent $420.5 million on welfare; by 1973, this figure had reached $797.8 million. Total state spending increased from $959.3 million in 1960 to $1,659.7 million in 1973.\textsuperscript{90} One point worth noting is that health and education spending, as a percentage of GDP, increased slowly and steadily over the period. While health spending increased very modestly from 3.1 percent to 4.4 percent over the 24 years from 1950 to 1973, the increase in education spending was more pronounced, from 2.4 percent in 1950 to 4.9 in 1973.\textsuperscript{91} However, despite this and the increase in total social spending noted above, spending on social security payments actually fell over the period, from 7.7 percent of GDP in 1950 to 6.7 percent in 1973.\textsuperscript{92}

Despite the dramatic increase in unemployment that occurred over the late 1980s and early 1990s, social welfare spending overall remained relatively static to 1999. Health and education spending both fluctuated between four to six percent of Gross Domestic Product whereas spending on social security (or income transfers) increased as a result of increasing unemployment and stagnant economic growth, surpassing

\textsuperscript{89} Ibid.
\textsuperscript{90} Martin, J., “The Modern Welfare State and Expenditure in New Zealand”, Appendix Table 10, p 13.
\textsuperscript{91} Ibid., Appendix Table 9, p 12.
\textsuperscript{92} Ibid.
10 percent of GDP in 1978 and then steadily increasing to reach 15 percent in 1991, as can be seen in Figure 2.8 below. However, the Fourth National Government soon reduced the cost of welfare spending through substantial cuts to the welfare system from 1991 onwards, which will be discussed later in this section. Importantly, total social spending as a percentage of GDP is surprisingly static, whereas social spending as a percentage of total government spending has increased more sharply: this reflects fiscal restraint in areas of government spending other than education, health and social security, which is consistent with reducing the size and scope of the state and placing restrictions on future taxation and spending decisions, in the interests of ensuring a sense of predictability in the market.

Figure 2.8 Categories of Government Expenditure as a Percentage of Gross Domestic Product 1970-1999

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The neoliberal idea of market stability was reinforced in the Fiscal Responsibility Act 1994, which cemented the new attitude of fiscal restraint. The Act set out the fiscal objectives of government as reducing debt to prudent levels, maintaining a balanced current account, ensuring a positive net worth to buffer against external shocks, and maintaining predictable tax rates. Crucially, in the operation of the market, predictability ensures that rational economic agents in the form of consumers, businesses, and investors can make sound decisions, provided the market signals are clear and effective. An obvious outcome of legislating for fiscal responsibility is that it can be used to justify reductions of state services and the retreat of the welfare state. In addition to providing a reserve army of unemployed that keeps downwards pressure on wages and conditions, reductions in social spending mean this safety net is cheaper to provide, and allows for lower and more regressive taxation, which is attractive to overseas investment. This goes hand-in-hand with the later emphasis on controlling inflation through the Reserve Bank Act 1989.

An example of the vision of the liberal reformers can be seen in a package proposed by Minister of Finance Roger Douglas in late 1987, which most significantly proposed to flatten the tax structure by changing the income tax rate to 23 percent and the company rate to 28 percent. Douglas also proposed to increase the Goods and Services Tax (GST) to 12.5 percent and ensure a significant income margin between working families and those dependent on benefits.\(^\text{94}\) It is argued that the incidence of consumption tax is flat, although in reality it is regressive, because those on lower incomes devote a higher percentage of their income to consumption. Increasing GST has the potential to contribute towards funding lower tax rates for those on higher incomes, while maintaining the ideological position that its incidence is equitably

applied. The margin between the incomes of those working and those receiving welfare payments is designed to incentivise people into work, and justifies significant reductions in benefit entitlements as occurred in 1991. Against significant opposition within the Labour caucus, a modified version of the package was introduced. The programme included a two-step personal income tax scale. For income less than $30,875 per year the tax rate was 24 percent, with excess income being taxed at 33 percent. Company tax was reduced to 28 percent, as in the original proposal. The overall impact was regressive. As Roper points out, it “reduced substantially the tax paid by high-income earners and companies while simultaneously increasing substantially the tax paid by those on low and middle incomes. It constituted the single largest handout to the rich in New Zealand’s political history, and did more than any other policy change from 1984 to 1999 to increase socio-economic inequality.”

Consistent with the shift from Keynesian demand management to the enhancement of productivity and competitiveness, the reforms imposed on the welfare state reflect a withdrawal from state intervention to secure the bargaining power and wellbeing of the working class. This reflects a desire to reduce the cost of social security and other state spending to the state, but also results in the creation and maintenance of a less expensive reserve army of labour to ensure labour costs as well as tax rates are internationally competitive and likely to attract foreign direct investment. Economically this shift was very rapid. Social policy reform was to follow, beginning with an underground political battle between Treasury and Prime Minister David Lange. In March 1986 Lange announced a Royal Commission on Social Policy,

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which was opposed and undermined by Treasury.\textsuperscript{96} Dissatisfaction with the Labour caucus resistance to Douglas’s social policy amongst the ranks of Treasury was exposed in its 1987 Briefing to the Incoming Government, a document designed to provide the philosophical and ideological basis of planned reforms, including reform of the welfare state, based on public choice theory and supply-side economics.\textsuperscript{97}

The Royal Commission on Social Policy and its public opinion surveys illustrated clear majority support for a return to the priorities of full employment and the continuation of the current level of social support. It recommended progressive taxation, an income support programme that responded to the needs of those it targeted, provision of a minimum income obligation, and the targeting of resources to families with children.\textsuperscript{98} It set the objectives of social policy as recognition of both individual and community responsibility, and the entitlement of individuals to equal treatment and the protection of their dignity. Simultaneously, the Commission held that social policy should be responsive to cultural diversity. Also highlighted was the need for fiscal responsibility, flexibility in meeting changing needs, and accountability through transparency.\textsuperscript{99}

Despite the intentions of the Royal Commission and general public opinion, Treasury managed to push through its neoliberal agenda. The changes were gradual at first, probably because the Labour Government was aware of the potential for

\textsuperscript{96} Kelsey, J., 1993, \textit{Rolling Back the State}, p 77.
\hspace{1em}Volume One can be accessed at http://www.treasury.govt.nz/publications/briefings/1987i
\hspace{1em}Volume Two can be accessed at http://www.treasury.govt.nz/publications/briefings/1987ii
\textsuperscript{99} Ibid., pp 424–5.
public disapproval. When the Fourth National Government was elected in 1990, welfare reforms were expedited. Jenny Shipley, as the Minister of Social Welfare, released a document entitled *Social Assistance: Welfare That Works*, in which she outlined a timetable for the implementation of the reforms. The first steps in December 1990 included the toughening of the requirements to qualify for a benefit and the lengthening of stand-down periods (between qualifying for and receiving a benefit), and, most significantly, the slashing of benefit rates. The most extreme impact on income levels occurred in the youth benefit rates: the raising of the age for those on youth benefits from twenty to twenty-five meant a reduction in income of 24.7 percent for those affected, and was concurrent with the abolition of the universal family benefit. There had been a sea change in the fundamental philosophical stance on welfare provision and income protection. The reform process was part of an overall move towards a more profit-oriented role for the state, and increased accountability on behalf of welfare recipients.

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103 See Rudd, C., 1997, “The Welfare State”, pp 237-255 & Richardson, R., 1995, *Making a Difference*, Shoal Bay Press, Christchurch, especially Chapters 8 & 11. This approach was later applied to other areas of social policy: perhaps most noteworthy in health, with the introduction of the three income groups, each with different levels of government subsidy on health care, symbolised in the invention of the Community Services Card, and the introduction of parental means-tested student allowances. These policies were introduced soon after, alluded to in Ruth Richardson’s *Mother of all Budgets of 1991*. State housing was yet another area in which social policy was significantly reformed. In the years 1990–1992, rents on state housing were to rise from the previous level of twenty-five percent of the tenant’s income to market levels, to be only partly subsidised by cash Accommodation Supplements, administered by the Department of Social Welfare. This had an extraordinary impact on the disposable incomes of low-income earners. Another related area of social policy that fits into Rudd’s broad definition of welfare is education, which has faced considerable structural reform since 1984, aimed at creating a competitive environment, with increased emphasis on individual responsibility for management, sign-posted by the invention of Boards of Trustees, bulk-funding, and the abolition of zoning. Tertiary education was also under attack, most significantly with the introduction of the student loans scheme, needed to smooth over the immediate effects of dramatic increases in course fees.
The 1987 *Briefing to the Incoming Government* illustrated a shift towards policy objectives that did not reflect just economic concerns but an overall philosophy of consumer sovereignty, incentive for the rational economic agent (based on the notion of self-serving rational consumers and producers that through individual decisions make the market efficient as an aggregate), and individualism. This philosophy was applauded by the New Zealand Business Roundtable (NZBR), which argued that because of state intervention and what it claimed were high levels of taxation and expenditure, “spending decisions amounting to around half the level of average per capita incomes are effectively taken out of the hands of ordinary New Zealanders and made by the state”. According to the NZBR these state spending decisions are highly unlikely to be as well informed as they would be if they were made by those affected by them: the individuals themselves. This school of thought suggests taxes and public spending should be reduced, releasing those levies for individual discretionary choice. In theory, this creates a more responsive economy which is more productive and competitive. The welfare state allegedly hinders this individualism because it distorts market forces and provides disincentives to work, as support is readily available without participation in the market, and requires states to increase taxes to fund such policies. This thinking was reflected in the Department of Social Welfare’s 1998 *Code of Social Responsibility*, in which a clear onus was put on individuals to become self-supporting. Interestingly, there are precise expectations of the individual in this document, but no role is mentioned for the state.

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105 Ibid.
Finally, before turning to the subject of the nature of the Fifth Labour Government’s election victory in 1999, it is useful to think about the legacy of social inequality the reforms left New Zealand with. One of the most useful and available measures of income inequality can be found in the Gini coefficient which plots the proportion of total income distributed to proportions of the population, usually deciles. The line of perfect income equality (everyone receiving exactly the same amount of income) has a slope of 0, whereas perfect inequality (one person/unit receiving all the available income) has a slope of 1 (or unity). Easton has estimated two series of Gini coefficients for New Zealand during the post-war era to 1973, shown in Figure 2.9 below:

According to Easton series 1, which is based on Census data, the Gini coefficient was 0.615 in 1951 but declined to 0.579 in 1971, representing an overall slight decrease in

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income inequality. Easton series 2 gives us more detail, as it has been collected for each year and extends slightly beyond Easton series 1. It also demonstrates an overall reduction in income inequality, although the decline is more marked, from 0.666 in 1954 to 0.552 in 1973. However, it should be noted that the reduction slowed from 1967 onwards, as declining rates of profit placed employers under increasing pressure to restrain real wage increases.

Probably the most widespread effect of the pro-business policy agenda that can be measured in any tangible way is the effect on income distribution. Chatterjee and Tobisson, cited in Barker, provide annual estimations of the Gini coefficient for New Zealand until 1990. They conclude that income inequality overall, as measured by the Gini coefficient, increased steadily for the population as a whole from the late 1970s, and accelerated towards the end of the 1980s. Significantly, although all groups experienced a sharp increase in income inequality, two observations can be made with regard to a second series of Gini coefficients based on Census results. From 1986–1991, the Gini coefficient for the general population rose from 0.554 to 0.609, a slightly sharper rise than that for wage and salary earners (0.421–0.466). The difference between the coefficient rises is most likely attributable to the Fourth Labour Government’s tax package (mentioned earlier in this section). From 1991 to 1996, however, income inequality between wage and salary earners rose, while for the general population inequality remained largely static. In 1991, the Gini coefficient for

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109 Ibid.
111 Ibid., p 22. It is likely that income measures based on tax data underestimate the rate of inequality, as they measure only taxable income and fail to take account of tax avoidance, which is more likely to be present in the higher income brackets.
all wage and salary earners was 0.466, rising to 0.479 in 1996, whereas for the general population it went from 0.609 to 0.611 over the same period.¹¹²

The impact of this development in terms of average disposable incomes for each decile over the period of the Fourth Labour and National Governments is illustrated in Figure 2.10 above. For all nine of the lower deciles, the average total share of personal disposable income fell over the period from 1982 to 1996. On the other hand, the richest decile (decile 10) has on average received an increase in disposable income from 24.9 percent of the total available income to 31.6 percent of the total. In other words, while only general trends can be inferred from this figure, the overall tendency has been for a shift in income away from those on lower incomes and towards those at the higher end of the income distribution.

The sharp increase in income inequality over the period, combined with the

¹¹³ Ibid., p 49.
consequences of the considerable cuts to welfare and other social spending, paved the way for the re-election of Labour in 1999. Similar electoral swings were engendered by conservatives’ heavy handed neoliberalism in the United Kingdom, Australia, and other advanced capitalist societies, albeit at different moments of recent political history. However, once in power many of the new governments retained the basic commitment to neoliberalism, leading to what has been described as the “death of social democracy” or alternatively as a Third Way between old style social democracy and neoliberalism.\textsuperscript{114} Giddens is credited with “putting his finger on what the Third Way is all about” in his book on the subject published in 1998,\textsuperscript{115} but it still appears to be shrouded in confusion. The basic premise is that the Third Way is a response to the so-called “failed” experiments of the First Way (social democratic Keynesianism and Stalinist centralised state planning), and the Second Way (neoliberalism), with the Third Way occupying the political space between the two. As one commentator put it, this political space could include everything from “armed revolution to complete laissez-faire capitalism”.\textsuperscript{116} Although this statement might be a little over the top, it is fair to say that there is some room for discretion in terms of defining what the Third Way is all about.

Some authors have attempted to describe the core values underpinning the Third Way. Dalziel sees these as centering around the themes of property rights, specialised production, income distribution, and monetary exchange\textsuperscript{117}, but although he has thought carefully about what this means in terms of application to particular policy areas (for example, property rights in relation to industrial relations) it is not


clear that this is an established, consensus view, rather than an exposition of his own ideas. Cheyne, O’Brien and Belgrave present a less prescriptive summary of Third Way values:

the notion of the Third Way encompasses a range of characteristics. These include the view that the state has the responsibility of guaranteeing access to certain goods but need not directly provide these goods, a normative emphasis on civic responsibility (in the sense of a citizen’s responsibility to their family, the community, and the environment), and an emphasis on real opportunity, which means priority given to employment-centred policy as a way of ensuring that people have sufficient income with which to be responsible for their well-being.\textsuperscript{118}

Given that the Third Way is purported by some of its enthusiasts to be concerned with renewing social democracy, attention by some commentators has been directed towards questions of social policy, and the different policy prescriptions that could be incorporated within a Third Way agenda. The result has been a considerable array of options that at times contradict each other. It has been notoriously difficult to identify a uniform agenda for the Third Way amongst those using the term. However, this makes sense when we consider that what constitutes a Third Way government in practical terms is very much defined in relation to the preceding political and social philosophies making up the “old left” and the “new right”.\textsuperscript{119} This could be extended to take into account the diverse concrete experiences that different states have had with the old left, and the new right of the 1980s, implying that what does or does not constitute the Third Way in New Zealand cannot be divorced from New Zealand’s political and economic history.


However, the major question raised by its critics is whether the Third Way is really a new political project, or simply a revised form of neoliberalism, with some attempt to soften the blow by talking of “partnerships” and renewing the (at least verbal) emphasis on community. There appears to be very little agreement on basic principles that can be applied broadly to all areas of policy implementation, probably at least partly due to the elusiveness of the key terms themselves (globalisation, individualism, collectivism, partnerships). Even when individual authors have contributed to the Third Way debate by identifying clear policy priorities, more often than not these are restricted to one or two areas of policy rather than attempting to clarify an overall policy direction.¹²⁰

2.3 The Fifth Labour Government: A “Third Way”?

The 1999 election result provided a clear message that there was marked disenchantment with the policies that had characterised the Fourth Labour and National Governments. While Labour were not handed full reign to govern alone (due to the multi-party nature of the Mixed Member Proportional or MMP electoral system) the left as a whole clearly did achieve a major electoral victory. It has been argued that under the previous First Past the Post (FPP) system, Labour would have won with a “convincing electoral mandate – probably by a landslide.”¹²¹ The result under MMP is even more compelling in terms of support of the left more broadly: while Labour received 38.7 percent of the vote compared to 30.5 percent for National,


the other parties on the left also received significant percentages translating into seats in Parliament, as summarised in Table 2.2 below:

### Table 2.2 Percentage of Party Vote and Seats Won at the 1999 Election

<table>
<thead>
<tr>
<th>Party</th>
<th>Party Vote %</th>
<th>Seats Won</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>5.2</td>
<td>7</td>
</tr>
<tr>
<td>Alliance</td>
<td>7.7</td>
<td>10</td>
</tr>
<tr>
<td>Labour</td>
<td>38.7</td>
<td>49</td>
</tr>
<tr>
<td>New Zealand First</td>
<td>4.3</td>
<td>5</td>
</tr>
<tr>
<td>United</td>
<td>0.5</td>
<td>1</td>
</tr>
<tr>
<td>National</td>
<td>30.5</td>
<td>39</td>
</tr>
<tr>
<td>ACT</td>
<td>7.0</td>
<td>9</td>
</tr>
<tr>
<td>Christian Heritage</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Independent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>Combined Left</td>
<td>51.6</td>
<td>66</td>
</tr>
<tr>
<td>Combined Right</td>
<td>37.5</td>
<td>48</td>
</tr>
</tbody>
</table>

The parties are listed as in the original, although here they are coloured in reference to where they are located on the political spectrum. As Table 2.2 demonstrates there was a very clear election outcome. As Roper describes it: “For one of the few times in New Zealand’s political history, and in stark contrast to the elections from 1984 to 1996, a government was elected with clear support from more than half of the electorate. Labour had been given a mandate to dismantle the most unpopular features of the neoliberal policy regime.”

In this context, nine days after the election, Helen Clark and Jim Anderton (leaders of the Labour and Alliance parties respectively) signed a coalition compact and later reached an agreement for

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123 Roper, B. S., Prosperity for All?, p 222.
confidence and supply support from the Greens in exchange for some involvement with policymaking.\textsuperscript{124}

In the lead-up to the 1999 election and immediately after Labour’s victory, it was clear in media representations that in New Zealand Labour was identifying itself with the Third Way and to a certain extent, riding on the coat tails of the initial political success of Tony Blair.\textsuperscript{125} In considering the ongoing influence of the Third Way on the Labour Government, one strategy employed by researchers has been to examine the text of key speeches given by senior political figures and to interpret their references either to the Third Way directly, or to what might be identified as Third Way-speak. For example, McQueen adopts this approach when attempting to assess the extent to which the Third Way has permeated legislation surrounding employment relations. She argues that while Helen Clark has, on occasion, felt “comfortable” associating her Government with the Third Way, she has preferred a discourse cast as “modern social democracy”.\textsuperscript{126} While this approach can prove illuminating in some respects, this thesis is less concerned with political discourse than with the role the state plays in the economy and civil society. Subsequently, the focus of this thesis is the analysis of concrete policy and its outcomes. In other words, the primary focus is on what the Government actually did rather than what they have to say.

\textsuperscript{124} Ibid., p 223.


Perhaps the most compelling and comprehensive attempt at addressing the Government’s practice rather than rhetoric in relation to the Third Way is presented by Connew\textsuperscript{127} who conducted a detailed analysis of the public policy programme over the first two terms of the Fifth Labour Government. In doing so, he identifies the Third Way as being to the left of neoliberalism, but points out that “it does not automatically follow that the third way is “unequivocally of the left.”\textsuperscript{128} Connew defines the Third Way as a political space that contains a variety of interpretations and approaches to equality (as opposed to the political space of social democracy, which also covers a range of possible positions, but all have in common a commitment to greater equality). Essentially, there is a possible, but not necessary overlap between the Third Way and social democracy. In the case of New Zealand’s Fifth Labour Government, Connew’s analysis leads him to suggest that while the Government’s policy programme places it in the Third Way political space, this is not in a place sufficiently to the left to overlap with social democracy:

the policies of the first term (1999-2002) shifted government policy from a pre-1999 position within the field of neoliberalism to a location within the field of the third way, but which was in close proximity of the political centre and certainly not within close proximity of the space of paradigmatic overlap shared by the field of third way and the field of social democracy. Hence the policies of the first term amounted to a convergence upon the political centre... the policies of the second term (2002-2005) amounted to a further leftward shift within the field of the third way, and, despite instigating a programme of income redistribution, the fifth Labour Government remained positioned outside the field of social democracy due to an inadequate commitment to reducing existing social inequality.\textsuperscript{129}

\textsuperscript{127} Connew, S., 2006, Reinventing the Left?: The Third Way and New Zealand’s Fifth Labour Government, unpublished MA thesis in Political Studies, University of Otago, Dunedin.
\textsuperscript{128} Ibid., p 121.
\textsuperscript{129} Ibid., pp 122–3.
This is a careful attempt to define the political positioning of the Fifth Labour Government. Ultimately, Connew concludes that while Labour claimed that it was associated with modern social democracy, it, in fact, did not demonstrate sufficient commitment to reducing social inequality to uphold this claim.

One final point can be made in relation to Connew’s analysis. He discusses the possible overlap of the political spaces of social democracy and the Third Way but does not directly address the question of the possible overlap between the Third Way and neoliberalism. Perhaps precisely because the Third Way was conceived as a political project to create a sense of distance from neoliberalism, this question has not really been considered by more mainstream commentators. However, if reading different interpretations of the Third Way tells us one thing, it is that there are a range of possible interpretations and some policies, assumptions, and values within the range of possibilities that overlap with those of neoliberalism. From a Marxist point of view, it seems in practice that the extent to which there is overlap has been understated. For example, in the seminal work Against the Third Way, Callinicos explores the idea of egalitarianism as a central value in Third Way thinking, and reveals that an emphasis on outcomes is replaced by a focus on equality of opportunity more characteristic of the political right, allowing for a corresponding endorsement of the monetarist macroeconomic policy agenda. Likewise, the value placed on community is revealed as a rationale for an authoritarian removal of individual rights in the interests of safety from crime. Given this situation Callinicos concludes that things “have come to a pretty pass when a Marxist has to remind defenders of contemporary Western societies of the point of the concepts constitutive

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of liberalism itself.”

It is not surprising then that the overlap between Third Way rhetoric and neoliberalism is evident in the following list of key policy principles of a Third Way government provided by Roper, as:

- centrally involving: a commitment to continuing private ownership of formerly state-owned enterprises; the creation of a lightly regulated and competitive business environment; greater state promotion of research and development activity in both the public and private sectors, including enhancement of the linkages between research agencies in these sectors; flexible labour markets; smaller, more targeted welfare entitlements; historically low rates of tax on high incomes and corporate profits; and fiscal austerity, typically as the flip-side of the independence of monetary authorities.

Roper’s list is comprehensive and he rightly emphasises the extent to which the program centres on enhancing corporate profits and supply-side economics, a point highlighted to even greater extent by Hay that captures the policy agenda of Britain’s New Labour. This identifies the extent to which their so-called Third Way approach to policy is consistent with neoliberalism:

1. Its commitment to the maintenance and consolidation of the inherited public/private mix and to a variety of internal market mechanisms and new public management incentivizing techniques (such as league tables and the competitive allocation of resources).

2. Its commitment to a global regime of free trade and free capital mobility.

3. The new monetarism of its rules- (rather than discretion-) based macroeconomic policy regime.

4. Its fiscal prudence and passivity, its antipathy both to deficit financing and to the use of fiscal policy as an instrument in the fight against inflation, and its commitment not to raise top rates of direct taxation.

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131 Ibid., p 59.
5. Its identification of unemployment as an exclusively supply-side phenomenon, its effective acceptance of a ‘natural’ or ‘equilibrium’ rate of unemployment, its rejection of any notion of a long-term trade-off between inflation and unemployment, and its acceptance that there is no longer a role in macroeconomic policy for adjustments in aggregate or effective demand.

6. Its agenda of labour-market flexibilization, designed to enhance cost competitiveness through the removal of labour-market rigidities. All of these supply-side economic assumptions are designed to lift profitability. Likewise, these assumptions were all retained in one form or another by the Fifth Labour Government. To the extent that more definitive policy prescriptions can be derived from Third Way values those that are most firmly entrenched in neoliberalism include economic management, social and taxation policy, industrial relations, public sector management, and competitiveness in foreign trade and investment. These are the core areas most urgently addressed as part of the neoliberal experiment in the first place, and the Third Way literature does not ultimately prescribe much change in these areas, beyond minor modification.

What follows from the foregoing is that the Fifth Labour Government not only failed to venture close to social democracy, in many important respects, it did not step very far out of the neoliberal political space. Hall argues for the ongoing relevance of the term neoliberalism by arguing that the forms it has taken over time (both in idea and policy form) suggest that it is far more useful to employ the notion of “variants” of neoliberalism, and in light of this interpretation of the limitations of the term “Third Way”, it is a far more useful way of considering the development of the Fifth Labour Government’s policy agenda. Hay adds to this argument by arguing

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that neoliberalism has gone through stages. Using Thomas Kuhn’s analogy of scientific paradigms, he suggests that during the late 1970s and early 1980s neoliberalism was “exceptional” politics: a newly suggested solution to a problem of crisis, whereas during the 1990s under so-called Third Way governments neoliberalism entered a period of what he termed “normalisation”, and even became thought of as “necessitarian” politics. In retaining core elements of the neoliberal agenda introduced by their predecessors, the Fifth Labour Government revealed that it had normalised and accepted the new conceptual framework as a necessary way of viewing economic and social policy and rebuild profitability (as will be discussed in Part Two of the thesis). Hay’s notion of neoliberalism becoming necessitarian in part refers to the way in which monetarist macroeconomic policy settings have been made politically independent of the state. The argument is that rationalist expectations characteristic of neoliberal and supply-side economics suggest that politicians have a vested interest in creating inflationary expectations in the lead-up to elections by making promises to the electorate that usually involve government spending. For this reason it is necessary to make monetary policy independent of the state, but it also has set up the expectation that this independence cannot be changed: hence, that the fact that this arrangement is a necessity.134 Burkitt describes this in the New Labour case as “constrained discretion”, although he emphasises a higher level of flexibility held by the state.135 It could be argued that the Fiscal Responsibility Act 1991 places similar restraints on successive New Zealand Government, although these constraints are not as strong as those invoked by the Reserve Bank Act 1989, both of which were discussed earlier in this chapter.

134 Ibid., pp 516—9.
The extent to which neoliberalism (albeit in a modified form) has become normalised is under-recognised in the literature and commentary on the Fifth Labour Government, and a fundamentally important contribution of this thesis is in highlighting the extent to which this is the case. However, there are important ways in which the regime was modified, and even in some cases softened. For this reason, this thesis is less concerned with defining the extent to which the Fifth Labour Government has self-identified with the Third Way and is primarily concerned with the key intellectual and political debates underpinning the literature on economic growth as they reveal the underlying political-economic dynamics that caused the Government to continue to pursue neoliberalism despite the nature of its 1999 election mandate: the ongoing need to raise productivity to support capital accumulation, the balance of class forces and the nature of the class struggle, and subsequent outcomes of policies that constitute a new variant of neoliberalism specific to New Zealand at a particular juncture: 1999 to 2006.

As mentioned in the Introduction, Lavelle argues that the ability of governments to return to the previously held socially progressive policies that reflected social democratic values is no longer possible given that the prosperity of the post-war era in the form of high growth prior to the early-1970s no longer exists. Profitable accumulation of capital has been undermined, making it impossible to implement policies that make significant inroads into reducing social inequality. He argues that while ideological trends, the impact of globalisation and electoral factors make a partial contribution to explaining why social democratic parties are more resigned to neoliberalism than they were previously, the primary reason neoliberal ideas are more

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readily accepted now is the collapse of the post-war boom.\textsuperscript{137} In other words, he attributes the “death of social democracy” primarily to the erosion of the ability of governments to finance progressive social welfare to previous levels, because of the declining productivity, growth, and profitability that continues to be characteristic of the advanced capitalist economies. As mentioned above, recent history supports this perspective, because in many countries where voters have elected political parties that traditionally have been of the left, many elements of the neoliberal policy regime have been retained.

New Zealand’s Fifth Labour Government provides a case study for considering this phenomenon. While the experience of New Zealand’s more contemporary variant of neoliberalism has its own unique circumstances and characteristics that will be explored in detail in this thesis, it assesses Lavelle’s argument in the New Zealand context, and subsequently contributes to the wider literature that attempts to explain this wider entrenchment of the neoliberal policy agenda within social democratic parties internationally.

\textbf{Conclusion}

This chapter has been primarily concerned with outlining the historical background and context for the detailed analysis of the attempt to lift productivity and profitability via the GIF that follows. It is important to do this because the GIF consists of an overall plan for economic as well as social development and because the GIF continues the neoliberal economic agenda. This historical background is crucial to considering the economic, social and political context in which the Fifth Labour

Government is operating. In economic terms, the post-war period in New Zealand (and the other advanced capitalist economies) can be divided into two major epochs: the golden weather from 1945 to 1973 and the onset of economic stagnation and eventual crisis characterising the period from 1973 onwards.

The post-war long boom was one of the strongest and most prolonged in the history of capitalism to date. But like all major advances of capitalist development, it was internally contradictory. With hindsight this is arguably attributable to the decline in the average rate of profit during the second half of the 1960s and the first half of the 1970s, and underpinning this trend was a declining rate of labour productivity growth. A contributing factor to the crisis was the pressure placed on real wage rates by the increasing militancy of the working class and the spreading of industrial action. The period from 1968 to 1973 was predominantly a period of instability, foreshadowing the coming slowdown, and while growth rates temporally continued to be high, substantial inflation and unemployment became a new norm. Most significantly, the axes of both class structure and class struggle had changed qualitatively. Marxists attribute this economic crisis to the inherent tendency within capitalism for the tendency for the rate of profit to fall, whereas the emerging dominant neoliberal perspective points to unpredictable and inconsistent state intervention as a cause of undermined productivity and investment. Subsequently, the latter embarked on a programme of policies designed to open up the New Zealand economy to international competition, drastically reduce the size and scope of the state and subsequently increase substantially the role of markets, cut welfare and flatten taxes, create a reserve army of labour to maintain downwards pressure on wage rates and working conditions, and ensure labour market flexibility, in the interests of making New Zealand more globally competitive and productive.
Economic conditions over the whole period (along with other factors) helped to define the terms and course of the class struggle. At different points in New Zealand’s post-war history, the demands of the working class (and the militancy with which they have been made), have altered considerably due to changing economic conditions: during times of full employment workers had strength at the bargaining table and a choice of an alternative job if they were dissatisfied. On the other hand, when crisis set in, it allowed employer interests to achieve a new level of prominence with the ability of workers to fight back systematically compromised by legal constraints on their capacity to organise and by the construction of a large reserve army of labour. This is evident when looking at industrial action statistics, as levels of strike activity varied so much over the time-frame. In turn, the reactions of various governments as they manifest in the implementation of policy reflect changing economic and social pressures (that are essentially class based), and provide some insight into the role of the state at a more general level over time. This background is crucial when considering the GIF’s function as a state intervention, as well as its economic and social outcomes, in Chapters Seven and Eight.

In particular, the more recent historical experience of the neoliberal experiment in New Zealand is crucial background for formulating a critique of the Fifth Labour Government’s economic and social strategy. The Government was elected with a strong mandate to make major changes to the neoliberal framework and this thesis examines the extent to which it did so. In this context, some brief consideration of the idea of the Third Way is inevitable, but ultimately unhelpful. The perspective taken in this thesis is that the Third Way was largely a project to repackage a normalised
neoliberalism while softening some of the earlier policies, but ultimately in most cases not changing enough to involve a real departure.

In the light of the perceived need to renew productivity and profitability and the difficulty high wage countries experience in the face of the industrialisation of what had been the Third World, this response has required that a new emphasis be accorded what has become known as the knowledge economy. In brief, science and technology policy have become more centrally linked to economic development strategies, and this broader experience has become part of the New Zealand agenda. Consequently, policies related to innovation, R&D and related areas such as education and training have not been immune to the neoliberal reforms, and this is explored in detail in Chapter Three. This has involved greater use of market determinants of the value of both R&D and education, and greater emphasis on capturing the commercial value of innovation as well as basic research. The GIF is clearly an explicit continuation of the neoliberal policy agenda, both in terms of its macroeconomic foundations and explicitly innovation related policy agenda, but with important modifications. Contributing factors to the specific variant of neoliberalism that characterised the Fifth Labour Government in the form of the GIF are explored in Part Two of the thesis.
PART TWO:

THE GROWTH AND INNOVATION FRAMEWORK:
THE POLITICS OF FORMULATION AND IMPLEMENTATION
Chapter Three

Formulating an Economic Strategy for New Zealand:
The Political Economy of Labour’s First Term 1999 to 2002

Introduction

This Chapter frames the context for thinking about how the Fifth Labour Government responded to the perceived need to reinvigorate the productivity and competitiveness of New Zealand’s economy and thus reverse the decline in the rate of profit. Central to this agenda was an acceptance that New Zealand must become a ‘knowledge economy’ and it was this imperative that informed both the development and implementation of the Growth and Innovation Framework. The formal consultation process employed in the development of the GIF is important, and is explored in Chapter Four. However, the consultation process does not account for
what was going on behind the scenes. Interviews conducted for the purpose of this thesis assist with this process by revealing far more than historically specific stories or events: rather, they provide powerful insights into the political climate at the time, as well as observations about the structural power that existed in New Zealand during the period of the Fifth Labour Government’s first term.

The development of policy that identifies innovation as central to economic growth was not specific to New Zealand. Rather, it occurred in the context of a growing awareness of the role of knowledge and information as central to a ‘postindustrial’ stage of capitalism commonly described as the “knowledge economy” or alternatively the “information society”. This commentary takes many forms and is described by a wide range of authors who reach different conclusions about the implications for the transformation of the social and economic fabric. Importantly, the particular implications for New Zealand’s innovation policy framework rely on an interpretation of the changing role of the New Zealand economy in the international division of labour.

This chapter also focuses on the internal bureaucratic processes that occurred in order to develop the GIF. Early thinking about an economic development strategy for New Zealand began while the New Zealand Labour Party were still in opposition, and for this reason, the background of the New Zealand Labour Party and their election in 1999 is given brief consideration in section 3.2. The party has its roots in the trade union movement and has historically aligned itself with the working class, but this positioning has changed over time, evidenced at least in part by the legacy of the Fourth Labour Government in implementing the neoliberal experiment in New Zealand from 1984 onwards. This historical legacy informs section 3.3 of the
chapter, which weaves together some of the narratives offered by interview participants to provide a nuanced interpretation of the political climate during the Fifth Labour Government’s first term, and outlines the perceived growing need to develop an economic development strategy for New Zealand.

One centrally important feature of the GIF is that it was not developed by government departments but by the Science and Innovation Advisory Council (SIAC) and finalised by the Prime Minister’s Office rather than policy advisors. This process is outlined in Chapter Four. However, it is worth considering the level of influence of individual government departments on the formulation of the GIF and in particular Treasury and the Ministry of Economic Development (MED). Section 3.4 identifies that historically, Treasury had significant influence over the policymaking process and this continues to be the case with the GIF intellectually, even though they were not directly involved. The MED was not involved with formulating the GIF, but was expected to administer many of the related policies and to evaluate progress. As a whole, this chapter aims to provide insight into the political and ideological context in which the GIF was formed at the bureaucratic level.

3.1 The Knowledge Economy and the Political Economy of Innovation Policy

The idea of the knowledge economy is relevant both because it underpins many of the policy prescriptions contained in the GIF and because the notion has become pervasive in contemporary society. There is an extensive literature representing a range of interpretations and descriptions of the knowledge economy, with many referring to it interchangeably as the knowledge society, information economy, or information society, however, there is at least some basic agreement. This consensus
holds that a) knowledge is becoming (or has become) increasingly important in the global economy, and b) the world economy is becoming (or has become) fundamentally transformed, largely due to the changing function of knowledge over time. While not recognised by all knowledge economy commentators, a key reason for the increasing acknowledgement of knowledge as having transformative importance at this historical juncture is the fact that in relatively recent history, major low wage countries have been able to industrialise, and this resulted in a major shift in the international division of labour. The impact of this for developed countries is that they can no longer compete with industrialising nations on productivity and labour cost terms in many areas of manufacturing, and the extreme lengths some countries went to protect their domestic industries via open and hidden tariffs are no longer working. Therefore, they have to consider what competitive advantage they have left and which are not easily replicated and this is a highly educated workforce and an institutionalised capacity to generate productive forms of knowledge, research and innovation, hence the attention knowledge and innovation are receiving in the literature and commentary about sources of economic growth.

Variations on the theme of the knowledge economy stress the role of information rather than knowledge and social rather than economic consequences.\(^1\) What is necessary at this stage is to note that the idea of the knowledge economy has been influential in the formulation of both contemporary economic and social policy, and of the myriad ways in which we think about the world. From a critical (let alone Marxist) perspective, the idea of a knowledge economy has significant limitations and it is important to consider carefully how useful it is in explaining what is happening in

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\(^1\) See, for example, Smith, K., 1998, *The Knowledge Economy: Characteristics, Indicators and Political Implications*, unpublished MA (International Studies) study project, University of Stellenbosch, Stellenbosch, South Africa.
advanced capitalist societies. May provides us with a useful starting point in this respect.

In the book, *The Information Society: A Sceptical View*, May interrogates four central and interrelated claims. These are that the information society: 1) is a social revolution, with society being radically transformed by the arrival of information communication technologies (or ICTs); 2) is fundamentally altering economic relations (with knowledge as the key to prosperity), transforming social and legal institutions and replacing class with networks of autonomous individuals; 3) is transforming politics and community, as expertise becomes a new source of power, replacing traditional sources, and new politically active networks emerge, not constrained by geography, and finally, 4) is leading to the decline of the state, as it will be successfully confronted by civil society. May presents reasons to be skeptical about all of these claims, but in relation to this thesis, the second claim is the most relevant as it relates to the capacity of the knowledge economy to deliver increased living standards for all, as the GIF promises.

The idea that the knowledge economy (information society) is fundamentally altering economic relations is omnipresent and overblown. It has been described by various authors in turn as something resembling a “new social formation” or a “change in the productive structure of the economy” although many argue the transition from an industrial society is still taking place and that the knowledge economy is therefore difficult to define. For example, Drucker (1969) has argued that,

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3 Ibid., pp 13–8.
5 Ibid., p 8.
6 Ibid., 6–8.
in various ways, the introduction of knowledge “does constitute a real revolution both in the productivity of work and in the life of the worker.”\(^7\) He goes so far as to argue that the new economy is so fundamentally different that it has altered class relations, as knowledge workers turn into a new breed of employee:

it also creates an unresolved conflict between the tradition of the knowledge worker and his position as an employee. Though the knowledge worker is not a ‘labourer’, and certainly not a ‘proletarian’, he is still an ‘employee’. He is not a ‘subordinate’ in the sense that he can be told what to do; he is paid, on the contrary, for applying his knowledge, exercising his judgment, and taking responsible leadership. Yet he has a ‘boss’ — in fact, he needs to have a boss to be productive...

The knowledge worker is both the true ‘capitalist’ in the knowledge society and dependent on his job. Collectively the knowledge workers, the employed educated middle-class of today’s society, own the means of production through pension funds, investment trusts, and so on. These funds are the true ‘capitalists’ of modern society... But individually the knowledge worker is dependent on his salary, on the pension benefits and health insurance that go with it, and altogether on having a job and getting paid. Individually he is an ‘employee’, even though there is no other ‘employer’ in our society.\(^8\)

This confusing notion is indicative of a common problem in the literature on the knowledge economy. Many authors proclaim widespread implications of changes in technology, pointing to anecdotal evidence and statistical comparisons between “now” and “then” to back up their arguments. What is missing in many cases is a carefully formulated logical theoretical framework, which attempts to explain, rather than simply describe, these observed phenomena. In the case of Drucker, as above, it is true that advances in technology have changed the social, political, and economic fabric in many ways, and that the effects of this development should not be

\(^8\) Ibid., p 259.
underestimated. However, the idea that this means that capitalism has been superseded, or fundamentally transformed — in either case rendering both Marx’s critique of capitalist production and classical Marxist class analysis redundant — is seriously underdeveloped so cannot be properly and adequately interrogated. Altering the relations of production that form the basis of the capitalist mode of production requires more than the arrival of new technology, regardless of how pervasive it is.

As May points out, Marx has always maintained that technological change is a necessary characteristic of capitalism, because it constantly renews itself:

Unlike previous ‘modes of production’, capitalism includes within its normal operations the search for new processes and new technologies. The argument that the introduction of new technologies transforms the manner in which the economy is organized is not self-evident if we think of capitalism in these terms. The transformation of the technical means of production is what capitalism does continually.9

Both May and Wood argue that rather than capitalism being transformed by the knowledge economy, capitalism has “progressively deepened its penetration into previously non-commodified social relations.”10 In other words, capitalism has transformed itself! Wood calls this the “universalisation” of capitalism and argues that at a global level, capitalism has finally reached a point at which it has now fully extended itself to every aspect of life. This is not to do with globalisation, but with the logic of capitalism reaching maturation.11 In this context, it makes sense to emphasise the continuity of capitalism’s logic over time and the role played by new technology:

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10 Ibid., p 41.
The old Fordism used the assembly line as a substitute for higher-cost skilled craftsmen and to tighten the control of the labour process by capital, with the obvious objective of extracting more value from labour. Now, the new technologies are used to meet the same ends: to make products easy and cheap to assemble (how else, for instance, would outsourcing be possible?), to control the labour process, to eliminate or combine various skills in both manufacturing and service sectors, to replace higher- with lower-wage workers, to ‘downsize’ the workforce altogether – again to extract more value from labour. What is new, then, about this so-called new economy is not that the new technologies represent a unique kind of epochal shift. On the contrary, they simply allow the logic of the old mass production economy to be diversified and extended. Now, the old logic can reach into whole new sectors, and it can affect types of workers more or less untouched before.\textsuperscript{12}

In other words, the knowledge economy constitutes an intensification of the relations of production found within capitalism, as capitalism becomes the “defining logic of the vast majority of the global system.”\textsuperscript{13}

May also acknowledges that the process of commodification is central to the existence of capitalist property relations, as Marx exposited in Volume One of \textit{Capital}, with the most important input into the productive process being commodified labour power.\textsuperscript{14} The increasing importance of information and knowledge in production is merely an extension of this process and is consistent with Wood’s concept of universalisation:

If capitalists are to make a profit and therefore accumulate more capital, as they must do if they are to reproduce their capital, they must find things to buy and sell, and most importantly they must find things to buy which can be combined in various ways and then sold for more than their collective cost. This requires a regime of property rights to allow for the legally

\textsuperscript{12} Ibid., p 550 (emphasis in the original).
\textsuperscript{13} May, C., 2002, \textit{The Information Society}, p 43.
\textsuperscript{14} Ibid., pp 38–9.
sanctioned transfer of resources (including labour) from one group to another. Historically capitalists have managed to render many things as property, and the expansion of intellectual property represents merely another phase in their need to mobilize raw materials (their inputs) as legalized property.\textsuperscript{15}

Intellectual property rights (IPRs) are an excellent example of an institution that has emerged relatively recently and appear to be a new phenomenon. While it could be argued that they are a revolutionary new social institution, IPRs play a crucial role in reproducing the familiar social relations of production of capitalism and ensuring the survival and extension of the class structure. With the shift in the international division of labour that is outlined above, it is not surprising that the World Trade Organisation (WTO) has emerged as a dominant global actor, as one of its primary goals is to protect intellectual property at a global level. While in theory this takes part on behalf of all member nations, the reality is that the developed countries maintain a dominant position having accrued repositories of intellectual property, and can use the WTO as an agency that enforces their intellectual property rights and thus offers an alternative form of protectionism to that which was earlier imposed on developing countries. Hence, the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement), which is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994 was imposed on the developing world in exchange for access to developed country markets.

To relate this to the New Zealand economy, technology has always been important and there have been clear moments when a specific technology has been

\textsuperscript{15} Ibid., p 38.
instrumental in shifting the economy in a progressive way. However, innovation has received growing attention which reflects the development of the New Zealand economy. Maitra identifies three phases of the globalisation of capitalism and applies them to New Zealand: the internationalisation of trade in goods and commodity capital, import substitution industrialisation, and economic internationalisation through deregulation of markets and export substitution. During the first of these phases, the internationalisation of trade saw New Zealand become an increasingly important source of food for Britain, but the injection of commodity capital in the New Zealand economy also helped to modernise agriculture and develop a manufacturing base in New Zealand. The protectionist response to the Depression that lasted through the post-war long boom in the form of government-initiated import substituting industrial growth, or ISI, sought to develop the domestic industrial sector by controlling imports into New Zealand and thereby reduce domestic competition for New Zealand producers. The manufacturing sector in New Zealand grew over this time, and while the primary goal was to reduce dependence on external sources of imports, a by-product of the policy was a significant rise in manufactured exports (in nominal terms, from $7.7 million in 1966 to $169.2 million in 1975). However, the reality of the onset of declining productivity in the mid-1970s in the context of a world economy where newly industrialised countries were claiming the competitive edge on

16 Perhaps the most often cited in historical accounts of New Zealand’s economic development is the introduction of refrigerated shipping which allowed New Zealand to export meat to Britain from 1882. See, for example, King, M., 2003, The Penguin History of New Zealand, Penguin, Auckland, pp 237–8.
17 Since 1980, increasing space has been devoted to the topic in the New Zealand Official Yearbooks, published annually by Statistics New Zealand, for example.
19 Ibid., pp 22–39
20 Ibid., p 26–27.
21 Ibid., p 27.
manufacturing meant protectionism could not continue to play its previous role in preserving manufacture and a new place in the global economy for developed countries such as New Zealand needed to be established.

With traditional protectionism becoming increasingly incapable of preserving New Zealand living standards and the profitability of the nation’s firms, policymakers began to see globalisation as inevitable. By 1990, Treasury was advocating market openness as the key to economic growth and was insisting that New Zealand: “had to be more than a passive by-stander in the globalisation process; it was in the ‘national interest’ that globalisation be positively embraced.”

Instead of import substitution, the new focus would emphasise export substitution which involved substituting conventional exports with non-traditional manufactured goods and new agricultural products that reflected the country’s area of comparative advantage. Consistently, the mainstream commentary on New Zealand’s competitive advantage in a globalised economy was to focus on three key issues: integration with the international economy, low levels of investment, or capital available to New Zealand businesses, and innovation.

It was expected that the opening up of New Zealand to international competition would decimate those sectors of domestic manufacturing that were uncompetitive and that could not adjust to the new environment but it was hoped that new sources of competitive advantage that drew on the nation’s scientific base would be assisted to develop: hence the three sectors identified in the GIF to be facilitated were: biotechnology, information and communication technologies (ICTs), and creative industries.

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With growing recognition of science and technology as a source of economic growth and profit, many of the advanced capitalist economies began placing increased emphasis on innovation policies. Thus in 2009, the Federal Government of Australia released an innovation reform agenda entitled *Powering Ideas: An Innovation Agenda for the 21st Century*.\(^{24}\) Likewise, the United Kingdom’s Secretary of State for Business, Innovation and Skills presented an *Innovation and Research Strategy for Growth* to Parliament in December 2011.\(^{25}\) The OECD places considerable emphasis on urging member countries to adopt policies for innovation with the most recent efforts being framed in terms of helping countries to recover from the recent global financial crisis and “increasing political pressure to meet various social challenges” like climate change, food security and poverty, and health (see *The OECD Innovation Strategy: Getting a Head Start on Tomorrow*).\(^{26}\) While developing countries are not ignoring innovation and science policy even China, probably the most dynamic of these nations struggles to match the knowledge base of the developed states.\(^{27}\)

New Zealand R&D policy was not immune from the neoliberal policy agenda implemented from 1984. According to Leitch and Davenport, the “progressive introduction of market concepts into the discourse of science and innovation has a long history… but in New Zealand has its origins in the neoliberal reforms of the


public sector begun in 1984... It was not until 1999, however, that full-scale marketization occurred.”28 The latter process began in 1989 with the establishment of the Foundation for Research Science and Technology (FRST), which was intended to function as a purchaser of outputs from organisations that carried out research (although initially it operated largely as a fund manager and did not immediately have an explicitly economic focus).29 Ultimately though, the new funding regime reflects a shift towards competitive contracting of projects judged by FRST and was accompanied by a roll back of government funded science.30 In addition, the Ministry of Research, Science and Technology (MoRST) was established in 1990, separating the policy advice role of government from the actual funding of science. Up until that time, policy and funding had been driven internally within the Department of Scientific and Industrial Research (DSIR).31

Change was further signalled by the dissolution of the DSIR in 1992, and the reorganisation of the old government departments into ten (now nine) Crown Research Institutes (CRIs) which were set up like corporations and required to report to boards of directors. They were also required to create “value” for their shareholder government ministers, in other words, were required to be financially self-sufficient. Whether or not a profit was formally required a commercial element was brought into the process.32 It is also important to note that the changes in research funding arrangements to favour more competitive allocation led to the growth of privately funded research organisations, especially those that are industry based. The CRIs are

29 Ibid., p 896.
expected to be the primary recipients of public funds, but they are encouraged to collaborate with private sector research organisations.

A key objective of this reform process, particularly under the Fourth National Government was to separate government involvement in science and technology policy, funding, and R&D. It was argued that this would result in clearer objectives and administrative gains by focusing the activities of the various agencies involved. Three high-level objectives were adopted in 1996:

- Fostering societal values and attitudes that recognise science and technology as critical to future prosperity;
- Ensuring an adequate level of investment in science as a component in national life which has cultural value in its own right; and
- Maximising the direct contribution of science and technology to diverse social, economic and environmental goals.\(^{33}\)

In 1997, the funding and delivery objectives of public sector research, science and technology were listed as accountability, enhanced economic growth, and improved decision making.\(^{34}\) These objectives reflected the rise of the use of the term relevance: in other words, the government aimed to fund and support research that was seen to be useful and contributing to the public good, rather than at the whims of government policy or individuals working in government departments. This focus on relevance was intended to satisfy the needs of the Public Finance Act 1989 and was central to ensuring a lack of overlap with the private sector. Funding was intended to be more tightly directed towards areas where there was perceived market failure, because private sector investment would already, by the logic of the market, have led to the

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\(^{34}\) Ibid., p 374.
commercial development of areas of industry where the market enabled the generation of benefits.35

As in the rest of the OECD world, the heightened emphasis on science and innovations was reflected in the tertiary education sector. The establishment of the Performance-Based Research Fund (PBRF) signalled a major change in the approach to research funding. Previously, the funding allocated to tertiary institutions was based simply on the number of Equivalent Full-Time Students (or EFTS). Through a desire to make research more accountable and competitive, and to enhance standards, there is now a system, similar to others around the world that aims to assess research outputs more formally. The research component of existing funding was essentially taken from the tertiary institutions and is now allocated on a competitive basis to the institutions that are deemed to be performing well with respect to research. This allocation is based on three measures of research outputs: research publication portfolios that are evaluated by area panels, ability to attract external funding, and postgraduate completions. This model has raised many issues in the tertiary sector, including but not limited to, the increased administrative pressures on the sector, staff time, and performance pressure (which can be unequal across faculty members, gender and other factors). The PBRF also initially led to the withdrawal of large amounts of money from some institutions that previously had relied on this funding for their operations. Hence, a new level of public accountability for generating new knowledge was imposed on the tertiary sector and the nation’s universities were consciously and systematically dragooned to become part of the effort to build New Zealand as a knowledge economy.

The new emphasis on science, technology and innovation required New Zealand’s political parties to adapt markedly and induced major disruption within these bodies as long established relationships and forms of assistance were disturbed. Given this development, it is helpful to briefly consider the historic legacy of the Labour Party as part of the background to their election in 1999.

3.2 The Shifting Position of the New Zealand Labour Party to 1999

The New Zealand Labour Party grew out of the industrial wing of the labour movement, in the context of the growing popularity of socialist ideas in the early 1900s. By 1919, three parties dominated Parliament: Labour on the left and the Liberal and Reform parties on the right. Although their support base grew, it was not until 1935 when the economic conditions of the Depression had been felt for a significant period of time and previous governments had failed to address the problem that Labour was elected with a clear majority to Government, under the leadership of Michael Joseph Savage (previously, they had not won more than a quarter of the seats), although it is important to note that central to their election victory was the temperance of some of the more radically socialist aspects of their policy programme. In 1936, the Liberal and Reform parties who had previously opposed each other joined forces to become the National Party.

The First Labour Government was in power from 1935 to 1949 and established Keynesian demand management of the economy. Savage is known in New Zealand as

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36 Mulgan, R., 1997, Politics in New Zealand, Auckland University Press, Auckland, p 238. Michael Joseph Savage was Prime Minister until his death in 1940, and he was succeeded by Peter Fraser, who was Prime Minister until the end of the First Labour Government in 1949.
the architect of the welfare state, and the 1935 campaign and subsequent policies demonstrated both this economic and social vision:

Three kinds of pledge were given, aimed at economic restoration, direction, and welfare. To restore the economy and expand production, Labour proposed that, in its first year of office, guaranteed prices would be paid for all primary production. All wage and salary cuts would be restored and relief pay increased ‘immediately’. Labour would enact a statutory minimum wage and salary payment for all workers... Elements of insulation — controlled exports, overseas funds, and imports — can be glimpsed in Labour’s policies. The Reserve Bank would become completely state owned and govern ‘the flow of credit, the general price level, and the regulation of foreign exchange operations’... Labour’s election policy went on to present programmes for health, education, pensions and superannuation which transcended any previous provisions.37

The key elements of this ‘New Deal’ programme remained in place for the next forty years being sustained by both Labour and National Governments.38 As we saw in Chapter Two, during this period there was general consensus that the economy was best managed by Keynesian demand management a consensus that sustained until undermined by the onset of crisis the neoliberal experiment undertaken by Lange’s Fourth Labour Government from 1984 to 1990. With this turn to the right, the Labour Party’s political branding required work in the lead-up to the 1999 election. What follows is an account of some of the influential factors involved in establishing a new political identity.


38 For an overview of social and economic policy during this time period see Chapman, R., 1992, “From Labour to National”, pp 351—84. Labour themselves had two more periods in office during this era, but each was only for one term: from 1957 to 1960 the Second Labour Government were led by Walter Nash, and from 1972 to 1975 the Third Labour Government was led by Norman Kirk and subsequently Bill Rowling.
Firstly, internal politics within the Labour Party were not straightforward. In the second term of the Fourth Labour Government, there was internal conflict over the extent to which market oriented, supply-side reforms should be implemented, which developed into an open feud between Prime Minister Lange and Treasurer Douglas, eventually resulting in Lange’s resignation in 1989. In addition, after failing to win a bid for the presidency of the Labour Party, Jim Anderton quit the Labour Party to form a party called NewLabour, which stood for the Labour Party’s traditional values. This internal dissent undermined the party within the electorate not least because the “economic policies of the mid and late 1980s sat more comfortably with National than Labour and [hence] National was able to return confidently to power as Labour was routed in 1990”.39

The second major influence reshaping New Zealand parliamentary politics was the introduction of the Mixed Member Proportional (or MMP) electoral system which made it possible for smaller parties to win a substantial share of the party vote. Under the old system, First Past the Post (or FPP), it was possible for independent MPs to win individual electorate seats but not an allocation of seats based on party membership. Under MMP, voters have two votes: one for their local MP and one for the political party that most closely shares their values. This meant that before the first MMP election in 1996 a number of smaller parties emerged hoping to gain a sufficient share of the vote to enable them to have a more direct influence over policymaking (this is referred to as the “flaking process”40). These included the Alliance under the leadership of Jim Anderton, which was a coalition of the Greens, New Labour, Democratic, Mana Motuhake and Liberal (or dissident National MPs); New Zealand

First (formed by Winston Peters, a dissident National Party MP), United (formed by former National and Labour MPs) and the ACT Party (or Association of Consumers and Taxpayers, formed by Douglas). The Labour Party had lost many votes to the emerging parties in the 1990, 1993 and 1996 elections. A sense of betrayal amongst its traditional constituencies contributed to their defeat in the 1990 election, and the MMP environment provided even more pressure for the Labour Party to differentiate itself from the competition. This was done by attempting to appeal to the centre-left through what has been termed “catch all” strategies: trying to appeal to as broad a base of support as possible. While not formally abandoning Rogernomics, Labour Party officials hoped to appeal to middle income voters, and by promising to reverse some elements of National’s social policy hoped to appeal to those dissatisfied with National (for example, in the 1996 election their policies included reducing the cost of state house rentals to no more than twenty-five percent of income, reducing the cost of tertiary fees to a flat rate of $1,000 a year, and reintroducing a universal student living allowance).

What actually happened is that through the 1990s, voter support for Labour remained relatively static (they received 35.14 percent of the vote in 1990, and 34.68 percent in 1993), whereas National lost critical support (falling from 47.82 percent in 1990 to 35.05 percent in 1993). The emergence of the smaller parties in the lead-up to MMP meant that voters had more choice and began to lend their support to them. As

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44 Street, M., 1997, “The Labour Party” p 149—50. After the 1999 election victory, they retained the housing policy but not the tertiary education policy.
we saw in Chapter Two, Labour did receive 38.7 percent of the party vote in the 1999 election compared to National’s 30.5 percent, so it is fair to say that by 1999 the Labour Party itself had regained some ground. However, the share of the party vote given to both the Green Party (5.2 percent) and the Alliance Party (7.7 percent) was crucial to creating conditions for the Labour Party’s victory: they formed a Coalition with the Alliance Party, and although still two seats short of a clear majority, support from the Greens meant they were able to form a government.46

3.3 The First Term: Developing an Economic Strategy for New Zealand

The Labour Party’s thinking on economic strategy evolved through the period when it was in opposition from 1990 to 1999 with increased attention being accorded the need to encourage productivity growth and industrial innovation. This point was stressed to the author by Pete Hodgson, the Minister for Research Science and Technology and Associate Minister for Economic Development:

In the ‘93 to ‘99 period, in opposition, we started to think differently. We started to think around the role of the state in the development of the economy and we kept repeating to ourselves that social and economic policy are not separate, they are one and the same, that it is important for a social democratic party to have a strong economic development focus so that you can achieve social development goals.47

As part of this effort Labour Party officials looked to their counterparts in Australia. This point was conceded by Hodgson who observed that he spent considerable time thinking about industry development, inspired in part by a visit to Australia in early


47 Hodgson, P., Interview with author (recorded and transcribed), Pete Hodgson’s Electorate Office, 32 Albany Street, Dunedin, 2 August 2010.
1998, following a programme organised by the Engineering, Printing and Manufacturing Union (EPMU):

It was my introduction to programmes and policies designed to promote this, that, and the other aspect of economic development in Australia at the federal and state level, including interstate rivalry and rivalry between each state and the Commonwealth Government. So there were programmes around this aspect of manufacturing or this aspect of niche manufacturing, or there were supermarkets to Asia, or there was this thinking around the pharmaceutical industry and it went on and on, screeds and screeds of programmes. A bewildering array of programmes, a lot of them, because there were so many, a lot of them unknown to Australians, and a lot of them about the competition between, say, South Australia and Victoria.\footnote{Ibid.}

While Hodgson acknowledges that Australia probably had too much activity, he recognised this was in stark contrast to the situation in New Zealand, where very few industry development programmes existed, with the exception of the work of an agency attached to the Ministry for Foreign Affairs and Trade (MFAT) called Trade New Zealand, whose main goal was export promotion. Consequently, by the time the Party came to office in 1999 it had still not completed the formulation of a comprehensive and sophisticated development strategy document to replace its laissez-faire programmes of the 1980s that it could present to employers, trade unions and the electorate. This was a situation that was to be transformed under pressure from the business community with the latter stressing the need for such a programme: once capital’s preferred strategy of emphasising industrial relations reform as the way to increased productivity and profitability was thwarted by the Fifth Labour Government’s decision to amend the Employment Contracts Act to compel employers to engage in ‘good faith bargaining.’ Confronted by this demand the Labour Government began the process of constructing the required strategy document. This
section of the thesis draws on commentary from key political actors to clarify the climate in which the programme was created.

Following the formation of the Coalition Government in December 1999, Jim Anderton was given the role of Minister for Economic Development and Hodgson was made Associate Minister for the same portfolio:

There was no strong trust between Anderton, or the Alliance, and Labour at that time. The trust built quite quickly but it didn’t exist then. So she [Helen Clark] said publicly that Mr Anderton was going to be the Minister of Economic Development. He’s going to institute Labour Party policy, not the Alliance economic development policy, Mr Hodgson is the deputy to make sure he does it. She did that publicly and Jim and I ended up working quite well together, and as the years went on we ended up working extremely well together.49

At the same time, Hodgson became Minister for Research, Science and Technology,50 and Anderton became Minister for Industry and Regional Development.51 On 4 May 2000, the Economic Development (Industry New Zealand and Ministry of Economic Development) Bill was introduced to Parliament, proposing a name change for the Ministry of Commerce to the MED, and establishing Industry New Zealand. These changes reflected what Labour saw as a new development emphasis that involved a more active role for the government on the supply side and that emphasised assistance to firms that were perceived to have export potential and/or capacity for growth within New Zealand. This enhanced emphasis was not welcomed by state

49 Ibid.
officials who had gained positions of influence through the previous fifteen years:

We had a Ministry of Commerce, and their job was to do business law and to try and do it well. They were at a phase where they were saying that pretty much no regulation is good regulation and so that’s where we were... We weren’t badly regulated, we were just cautiously regulated. It was as little regulation as possible, brackets, and as much as is absolutely necessary. It was laissez-faire. And then hidden in the back corner of the Ministry of Commerce were still some people from way back in the early days gathering cobwebs who believed in the role of the state in economic development, and we ferreted them out, and once the government changed it became clear we had a different approach to economic development.52

In other words, prior to 1999, the laissez faire approach had prescribed a very minimal role for the state and in the Fifth Labour Government’s first term, this assumption began to be challenged. The “ferreting out” referred to in the above quote does not refer to redundancies: rather, it entailed getting analysts who were more open to state involvement in industry development to become more involved in policy-making. Importantly, this did not necessitate subsidies and protectionism: rather, the emphasis was on the supply side: providing the environmental conditions to assist business to become more competitive and innovative:

I don’t recall whether we had thought or used the term business incubation, but it was around at that time. I don’t recall whether that document recorded or had much to say about regional development as an idea, but it was there as part of our thinking. The main thinking was that we had Trade New Zealand, which was nice, but we didn’t have much to assist getting companies that had export potential but were not export ready... So we invented this thing called Industry New Zealand and some people at the outset wanted us to put it together and make it what it became later, New Zealand Trade and Enterprise. I resisted on the grounds that I didn’t want the ethos of Trade New Zealand to beat up on the new

52 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
embryonic ethos of helping stake those companies that were too small to contemplate export but which had significant growth potential.53

Some of the policies developed in the first term that eventually became GIF programmes did add to the workload of the Foundation of Research, Science and Technology (FoRST), which had recently been created to take on responsibility for administration of contestable research grants, as described earlier in this chapter. The role of the Ministry of Commerce also changed from one of simple regulation to having what Labour described as more active and supportive promotion of economic or industry development.

Despite this apparently renewed focus on industry development calls for the articulation of a more comprehensive and sophisticated strategy continued to be articulated by the business community. Initially, the Fifth Labour Government accorded this call only limited attention, because during the first year or so in government they were busy implementing election promises and changes. Hodgson describes these changes as relatively minor, as they were essentially structural reforms to the state architecture, for example realigning government agencies more appropriately to the Government’s new focus.54 Eventually however, the call for a strategy became too difficult to ignore, and Hodgson became convinced there was a need, in fact an obligation, to respond:

the call for a more strategic document grew louder and louder and it became clear to me that our dismissal of the usefulness of writing a strategy for the sake of writing a strategy, our dismissal of that was becoming less

53 Ibid.
54 Ibid.
and less useful and that actually it was beholden on us to do some thinking.\textsuperscript{55}

According to Hodgson, the motivation behind the strategy which eventually took the form of the GIF was that New Zealand has good science, and while most of it is done for public good or its own sake, there is other science that can and should be commercialised, and as a country New Zealand is very bad at doing so.\textsuperscript{56}

This is the background to the establishment of SIAC and the consultation process outlined in Chapter Four. SIAC reported to Helen Clark, but Hodgson attended the monthly meetings in his capacity as Minister of Research, Science and Technology. He describes the meetings as loose and chaotic, developing ideas from scratch:

We were all at the beginning of this to me, and I can remember Helen Clark holding two meetings of the SIAC because it was constructed in such a way that it reported to her, and it nearly always reported to me, I would go to all their monthly meetings on a pretty regular basis, but I remember two meetings where they reported to her, and the first one they spoke excitedly and the room was abuzz. We were really pleased and enthused at the thinking that was coming out of these people. It was loose thinking, it wasn’t tied down, in fact it was chaotic. A couple of months later, we had another meeting and the same excited, loose, chaotic thinking came out. Helen and I met briefly afterwards and she said to me something that didn’t need to be said: “these guys haven’t got direction, they’ve got all the enthusiasm, where’s the hard yards?” So I would say in that respect the SIAC deliveries weren’t that good at all.\textsuperscript{57}

It is important to note the limitations of SIAC’s influence. Hodgson goes so far as to say that some of the policies included in the GIF did not come out of SIAC itself, but

\textsuperscript{55} Ibid.  
\textsuperscript{56} Ibid.  
\textsuperscript{57} Ibid.
were part of the Government’s own thinking. He cites the example of the Venture Investment Fund which SIAC supported but the government initiated.

SIAC did play a role in helping the Government win business approval. Hodgson says of SIAC, “I think they gave us as a government private sector blessing. It helped shift the political economy. The political economy was very, very staid, it was very neoliberal and the job had been done, nobody knew what to do next.”58 In making this latter point Hodgson detailed many of the informal conversations the government was having with the private sector:

They were saying things like “you are paying insufficient attention, not only to offshore markets, you need more export effort, but you are paying insufficient attention to offshore connections. The economic value of knowing people, and in particular the economic value of knowing Kiwi expats, of whom there are hundreds and thousands.” That started to come through in GIF later... They said “your approach to immigration is understandably a gate-keeping role, but it has to also be a recruitment agency. And you are doing one of those jobs well and the other one you are not doing at all.”59

Over time this advice from the private sector helped influence the Government’s thinking on economic development though Hodgson observes business assistance was based on the view that the Government lacked required skills and knowledge:

They took us only so far... it was as if they were rushing down to save this government from itself. In other words, their starting point, and they were right to an extent, was that we knew nothing about business. And the second part of that was that they would give of their time and effort

58 Ibid.
59 Ibid.
generously to help us. And they were of some help, and that became a contributing force to the GIF document.60

One major question when discussing business influence over policymaking is to what extent this influence dominates government policy making. Hodgson suggests this input was substantial though this contrasts with the view of Phil O’Reilly, Chief Executive of Business New Zealand who describes business influence thus:

Oh, inevitably governments are influenced by different groups at different times, so it’s important when you think about influence that you don’t think about it in a monolithic or a linear sense, it is not like that. So I might be influential with a particular minister on a particular day, on a particular issue, I might be highly influential. And with that same minister the next day on another issue, I might have no influence at all.61

O’Reilly alleges the relationship between business, unions, and government as a cooperative one, and expresses respect for the tripartite approach of government in general and the Labour Party in particular:

So, what you saw was that, what is clear is that the particular close relationship that government has with the labour unions through the CTU [New Zealand Council of Trade Unions, or NZCTU] in particular, and with individual unions as well, such as the EPMU [Engineering, Printing and Manufacturing Union] and the Service Workers [Service and Food Workers Union] and so on. That was pretty much constant with the last Government, and no problem with that... And that played out in this sense that you saw, as I said to you before, Ross Wilson and Peter Conway and a couple of other guys, Andrew Little, and so on, kind of, whenever I was at a meeting they were at the meeting, or committee of some sort. If I was appointed to an advisory board, they were. That’s because the Government has a view that government, and the Labour Party today, to their credit, has a view of that tripartism, the ILO [International Labour Organization] view

60 Ibid.
61 O’Reilly, P., Interview with author (recorded and transcribed), Faculty of Business and Law, Auckland University of Technology, Auckland, New Zealand, 1 December 2010.
which says that these guys are social partners and we should consult them.\textsuperscript{62}

O’Reilly considers the role of the NZCTU to be influential, but argues that their influence also is quite changeable, because “governments do different things for different reasons.”\textsuperscript{63} Likewise, he acknowledges the influence of specific groups of business people, and individual business people in particular:

Guys like Stephen Tindall and so on were relatively influential... The other influential people were, certainly in the innovation space, were particular CRI heads, Andy West was influential with them, people like Murray Bain were pretty influential with them at the Foundation [FoRST], at that time, now MSI [Ministry of Science and Innovation]...

Some business groups, but mainly individual business people, started the Business Council for Sustainable Development, which was influential, but I thought the much more influential folk were individual business people who happened to be able to talk and be influential with the Government. And so, Stephen Tindall being the single most obvious example of that, but there were others, and then people like me or Business New Zealand.\textsuperscript{64}

This individual influence reflects the size of New Zealand, and the importance of informal networking and conversation around policy issues, but O’Reilly’s observation make it clear that business interests have myriad ways to influence government, and this does not occur solely through formal channels, such as the SIAC

\textsuperscript{62} Ibid. Ross Wilson is a former President of the NZCTU, Peter Conway is the current NZCTU Secretary, and Andrew Little is the former National Secretary of the EPMU, currently the President of the New Zealand Labour Party and a list MP.

\textsuperscript{63} Ibid.

\textsuperscript{64} Ibid. Stephen Tindall is the founder of major New Zealand retail chain The Warehouse and the Tindall Foundation, and has been on the membership of the Growth and Innovation Advisory Board. Andy West has been the Chief Executive of the Institute of Geological & Nuclear Sciences Ltd (GNS) and then AgResearch Ltd both Crown Research Institutes) and in March 2012 was appointed Vice Chancellor of Lincoln University. Murray Bain was a former Chief Executive of the Foundation for Research, Science and Technology, then the Chief Executive of Ministry of Science and Innovation, and now holds a senior role in the newly established Ministry of Business, Innovation and Employment.
consultation process. It is also clear that Business New Zealand tried to work with government rather than against it suggesting that its leaders viewed the Government to be an agency it could influence:

we tried to be nuanced about what we were saying, congratulations, or bouquets and brickbats, but at the same time we tried to engage with them, and this is why the GIAB [Growth and Innovation Advisory Board, which superseded SIAC] process was important. We tried to engage with them in helping their thinking, describing how business would react to something. Trying to help them talk to business. Trying to show respect to them when they did. Respectfully attempting to change their mind or alter their perception as opposed to saying, well what would you know about business? That sort of thing, you know. We tried to be the opposite of tribal if you like. I thought those were the main things that I could see operating.65

This is surprising in some respects, given the hostile reaction to Labour’s election win by business and employer organisations and when interviewed by the author Anderton (Minister of Economic Development and Leader of the Alliance Party) explained how the Labour Party believed this situation was created:

Well, when we came into office, we faced what was called the winter of discontent, with the business community crying wolf, desperately saying that they were going to fall over, and business was going to fail and it was going to be Armageddon. It was interesting because it was against a background where the growth rates were actually quite strong. Unemployment was falling, and it was completely insane really, I mean what they were saying was completely at odds with the reality. But nevertheless perception is nine-tenths of the law, so they kept saying it was all Armageddon. So we set out on a kind of — I don’t know — change the climate of opinion tour right through the country. And we had business meetings in every centre, and because we fronted up and we explained what the Government was intending and how this would actually be beneficial to business as well as to ordinary people, and we had a good case to sell, and the business community’s objections to a lot of things were

65 Ibid.
quite spurious actually and they proved to be such when they actually had to put them up to the cold light of day... And after that whole exercise which went on through the whole country for some months, everything calmed down. But it also calmed down because the truth was, things were improving rapidly. It’s just that they were yelling fire in a crowded theatre, I mean there wasn’t any fire, but because they kept yelling fire, people thought there might be some fires somewhere. But after a while everyone realised that it wasn’t. The light at the end of the tunnel wasn’t the train coming through it, it was genuinely light at the end of the tunnel.\textsuperscript{66}

Likewise, Hodgson has a similar description of the pressure Labour was under from the Opposition, and the general change in perception over time but in so doing he also notes that with industry development taking off, Anderton was under pressure for the micro-interventions that did occur in the form of business assistance:

The other thing to be said, defensively, the government can do what its political economy will allow it to do. And at that time, we had Hyde attacking Anderton, not daily, but weekly, in the House for giving money to this or that firm. They would win something for the Technology First Growth programme, or they would have some new programme coming out of Trade NZ or Industry New Zealand or whatever it was, and some firm would win some contestable process, and Hyde would go after it. Now Anderton beat him down, but it is worth remembering that back then we were in a bizarre hands-off level-playing field scenario.\textsuperscript{67}

Despite the pressure forthcoming from business the Labour Government remained resistant to the notion that it should become \textit{substantially} more active in providing assistance and guidance to firms. Thus Hodgson observes:

\begin{quote}
We had adopted neoliberalism in practice, if not in rhetoric, in practice as a nation more than any other nation that I knew about. So we were coming
\end{quote}


\textsuperscript{67} Hodgson, P., \textit{Interview with author (recorded and transcribed)}, 2 August 2010. Hyde refers to Rodney Hyde, former leader of the ACT Party, which sits to the political right of the National Party.
back from that position. We did shift it a lot. We have still not caught up with Australia, and if you think of it in those terms, we could not have.68

Given this situation, when microeconomic level policy interventions designed to support business were introduced, they were general and facilitative rather than representing active government intervention in markets.

The GIF was released in February 2002. With this release Anderton informed the author the GIF document was designed to:

symbolise a change in policy direction [from the previous Government], and a change in emphasis, and a change in the role of the Government… there was an attempt being made to indicate that the Government was going to play a stronger role in the development of the economy, and that economic growth was essential for social as well as environmental development.69

The foregoing discussion highlights the fact that the Labour Party-Alliance program entailed a refocusing rather than a withdrawal of the state from economic development. It suggests that under pressure from the representatives of capital the Government had decided that it would become more active in steering the economy even while resisting demands that it provide substantial new injections of resources. It also suggests that when steering the economy it would place increased emphasis on enriching the supply-side. Finally, the discussion makes it clear that in choosing to eventually produce a development strategy document the Government was responding to business and not the voters. This impression was confirmed by Hodgson who when asked who the GIF document was designed to appease

68 Ibid.
69 Anderton, J., Interview with author (recorded and transcribed), 20 October 2010.
answered: “At business and at government. We were trying to change the political economy.”

Given that the Government was actively seeking to provide a programme that business would endorse it is not surprising that Nick Clark, formerly an economic advisor at Business New Zealand, describes Business New Zealand’s response to the GIF as cautiously supportive even though this perspective remained tempered by the changes to employment law implemented immediately after the election of the Fifth Labour Government. Hodgson, on the other hand, felt that it took some time to achieve their support:

Business New Zealand managed to make sure that it was okay with it because they behaved politically, but actually they had to move along the political economy too, and it wasn’t until Phil O’Reilly [Chief Executive of Business New Zealand] arrived and decided to embrace it (that was as I recall after this document was released) that they became well on side.

O’Reilly sees the situation in the same way:

So they did a really good thing... what you noticed was the beginning of a much more energetic conversation around innovation in the last days of the government than I had seen from them in the first two or three years. And a lot of that was to do with Hodgson, who was sitting in the chair. He was a keen analyst, I found.

What is most interesting is that O’Reilly described the emergent policy framework as apolitical. This description seems to reflect that the two main parties agreed about what was wrong with the economy, and what needed to be done about it:

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70 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
71 Clark, N., Interview with author (recorded and transcribed), Federated Farmers Wellington Office, Level 6, Wellington Chambers, 154 Featherston Street, Wellington, New Zealand, 20 October 2010.
72 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
73 O’Reilly, P., Interview with author (recorded and transcribed), 1 December 2010.
What’s interesting is that this government [the Fifth National Government] has also somehow picked that up... they’ve taken it the next step and I suspect that when Labour gets back in they’ll take it to the next step again because it’s actually a relatively apolitical point that the only way that New Zealand will truly make its own way in the world, at the end of the day, is through innovation, is through intellectual property that comes out of places like this [reference to the venue the interview was conducted in, a university]. We take it to market and make a profit on it, that the rest of the world can’t copy for a while.  

That there was concordance on development policy across the major political parties was conceded by Hodgson who also adds this concord was only ended in early 2010 (that is, after the Fifth Labour Government lost the 2008 election). As Hodgson informed the author in 2010:

In the last six months, we have said the macroeconomic policy detente between National and Labour is over. We think the tradables sector is bearing too big a hit. We don’t think the housing and property sector is bearing enough of a hit. So, it’s over. We did that six months ago; we could not have done that ten years ago. That would have been the commies are in charge, even though by international standards that would have been quite a moderate thing to say. So political economy, I notice you used that language at the outset, was at least on my mind — what can we get away with here? 

This comment supports the argument that while there was some difference between the agendas of National and Labour, there was broad consensus about the basics throughout the Fifth labour Government’s three terms. Similarly, Nick Clark observes:

I think what we are seeing now is for the first time, potentially, in 25 years, longer, probably longer actually than that, given that National and Labour, even in the seventies, would adopt a fairly similar policy. They were both interventionists in those days. Then we had Labour, you know, with Rogernomics and the Nats [National Party] sort of falling in behind that, so

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74 Ibid.
75 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
I don’t think we have really had a real left/right, really strong contrast between the two major parties in many, many years.\textsuperscript{76}

Again, there is basic agreement on the neoliberal fundamentals coupled with the increasingly important role for innovation. The intellectual underpinnings of the GIF will be explored in more detail in Chapters Five and Six. In the meantime, it is important to consider the role of government departments in formulating and delivering the GIF, because the state is not a homogenous force for policy change.

### 3.4 The Role of Government Departments in Formulating the GIF

This section comments briefly on the extent to which Treasury and other government departments such as MED, influence policymaking, in relation to the GIF. Within the literature, it is widely accepted that Treasury has “a decisive input into the policymaking process”.\textsuperscript{77} Accordingly, the sources of this power will be considered before discussing the role of MED. Treasury’s capacity to influence policy comes from a range of characteristics that are not shared by other government departments. One of the most important characteristics is the scope of Treasury’s activities compared to other departments. Boston, a Professor in Public Policy at Victoria University of Wellington, provides a usefully condensed list of these activities:

First, it is (by convention rather than by law) the government’s principle adviser on economic and financial affairs. This includes advice on macroeconomic policy (e.g. monetary policy, fiscal policy, exchange rate policy, and incomes policy), as well as on supply-side issues (e.g. trade policy, industry assistance, tax policy, employment policy, and labour

\textsuperscript{76} Clark, N., \textit{Interview with author (recorded and transcribed)}, 20 October 2010. Rogernomics is the term given to the programme of neoliberal reform implemented by the Fourth Labour Government, inspired by the name of the then Minister of Finance, Roger Douglas.

market regulation) and social policy (e.g. education, health, housing and social welfare). Second, by virtue of the Public Finance Act 1989 Treasury has important financial management responsibilities including monitoring the flow of government revenues and expenditures, supervising the financial operations of government departments and agencies, and preparing the Public Accounts. Third, Treasury has a significant role in managing the country’s foreign reserves and debt... Finally, in recent years the Department has acquired something of an educative and advocacy role.78

The scope of Government activities on which Treasury has the right or obligation to comment grants the department privileged access to policy making at all levels, including Cabinet. Treasury — in consort with the Prime Minister’s Office — prepares the annual Budget.79 Treasury must also endorse or write a separate report on policy proposals with economic or financial implications; since 1973, these reports have been circulated to all Cabinet ministers (previously they were only distributed to the Prime Minister, the Finance Minister and the relevant departmental ministers), exposing all Cabinet ministers to Treasury’s arguments.80

Perhaps most importantly, Treasury has the capacity to set the broad philosophical and theoretical framework that defines the policy questions being asked and the subsequent options that can be considered.81 In this sense, Treasury contributes significantly to the normalisation and necessitation of mature neoliberalism that was outlined in Chapter Two. Most significantly, this capacity has meant adherence to and promotion of the prevailing economic orthodoxy. Boston

78 Ibid., p 198.
80 Ibid., pp 72–3.
traces this process in the New Zealand context, where the development of Treasury’s economic thinking since it was established in 1840 closely followed orthodox economic thinking. Treasury’s influence is made clear when the 1999 Briefing to the Incoming Government and GAINZ, the document setting out the GIF, are compared. The GIF attempts to address many of the issues posed by Treasury in 1999, with policy prescriptions acceptable to Treasury.

This is not to say that the Government blindly accepts all of Treasury’s policy recommendations, but Treasury is in a privileged position to influence Cabinet, for the various reasons listed here and elsewhere in the literature. Most importantly are its basic assumptions about how economies work, potential outcomes for income distribution and inequality, and the necessity of maintaining conditions favourable to the interests of capital. Roper outlines these assumptions:

Underlying all of Treasury’s policy advice, is the fundamental assumption that capitalism is the best possible form of economic organisation known to humankind, and, since everyone benefits from capitalist expansion through a rising material standard of living, the state should create and maintain conditions favourable to profitable capital accumulation. In short, the state should not only be minimal in its dimensions; it should also be pro-capitalist in nature.

These assumptions heavily influence other government departments and are often taken for granted by Government. As demonstrated in Chapter One, economic theory has widespread political and social implications. The unchallenged acceptance of this orthodoxy has profound implications for the circumstances in which New Zealanders

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83 Ibid., p 72.
live. For example, the 1999 and 2002 *Briefings to the Incoming Government*\(^{85}\) appear to represent an objective strategy for economic progress, but in fact: a) represent a sophisticated attempt to persuade the Government to retain all the basic elements of the neoliberal policy regime introduced since 1984\(^{86}\) and, b) comment directly on welfare policy, suggesting the state should retain a minimal role in this respect.\(^{87}\) The significance of these points will become clearer in Chapter Six.

Finally, the point should be made that Treasury’s influence is curtailed by some structural checks on its power. As Roper points out, any analysis of Treasury’s capacity to influence the policymaking process must take into account the broader context of the balance of class forces, and their influence on the state, as it is possible that the balance of class forces could give the state reason to challenge Treasury’s position:

First, there are very real institutional limits to Treasury’s power and influence within the policy process: it is, after all, merely the government’s chief adviser. Cabinet makes the final decisions in New Zealand’s system of government... Second, if Treasury’s approach was seriously at odds with powerful class-based interest groups in civil society, and the dominant faction within Cabinet was sympathetic to the concerns of these groups, then it is likely that steps would be taken to seek alternative sources of advice. Third, Treasury has done little more than follow the prevailing economic orthodoxy in its policy advice, albeit drawing on the more right-wing currents of thought within this orthodoxy. To view this historic shift in policy making purely, or even largely, in terms of Treasury capture is to ignore a series of other, arguably more important, factors underlying it. Therefore, the challenge is to clearly identify the significance of “Treasury

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“capture” while simultaneously incorporating this within a broader analysis of the causes of this fundamental transition in policymaking.\footnote{Roper, B. S., 2005, \textit{Prosperity for All?}, pp 169–70.}

This reinforces the point made in Chapter One: that the class struggle is fluid over time and depends on many factors. While it is limited in many respects, as above, it is at least fair to say that in New Zealand’s experience in the period since 1984, Treasury’s advice has played a crucial role in the acceptance of the neoliberal policy regime.

Although there was clearly considerable congruence between Treasury and the Government on the relationship between innovation and economic growth, Hodgson makes an interesting observation about the time it took Treasury to come around to the policy prescriptions in the GIF:

MED came around to it [the GIF] quite quickly. Treasury came around to it much more slowly, and only when MED had decided that labour productivity was the way to measure it. They then decided, Treasury, well into the decade, decided that productivity mattered a lot, and they got themselves excited about the productivity contribution of good early childhood education, for example. An impossible thing for them to think about at the beginning of the decade. So their political economy shifted, but only over time.\footnote{Hodgson, P., \textit{Interview with author (recorded and transcribed)}, 2 August 2010.}

As noted above, MED came to favour the GIF relatively quickly, despite not being directly involved in developing the GIF document, but being told to implement and evaluate it. As Hodgson put it:

We wrote this thing without MED involvement, I mean by the time it got to the stage where it is there now [in the GAINZ document] MED will know about it. But all the early work, and what you might call the executive summary and choosing the three sectors and all of that, MED were not
involved; we didn’t trust them. And then much closer down the track, I can remember ringing Geoff Dangerfield who had been made the new MED Chief Executive, a guy who we thought could handle this pretty well. We said “we wrote it, you’re going to do it and you’re going to measure it.” Like it was to be done through NZT&E or Trade New Zealand and Industry New Zealand which became NZT&E, but it had to have an overview to pass it to MED and it had to have some way for us to work out which bits were going okay and which bits were going badly. So we had to have some monitoring and evaluation. So I said to Geoff, “you can do the monitoring and evaluation from the bottom up; it’s yours, you just do it as you see fit. But that’s the essence of what we’re putting in place. Don’t try to rewrite it, thanks; it’s done”.

For at least one senior MED policy advisor, the lack of involvement in developing the strategy was somewhat frustrating:

The team here at MED was quite interesting because we hadn’t participated in the development of the strategy. There’s a great lesson; if you want to have an effect on strategy, please involve the people who are going to implement the strategy because they need to understand what you are talking about. So by the time we got it, we were kind of like, “what is this thing?”. “We want you guys to make it happen”, we were like, “what is it? and why? and why these things?”

This demonstrates the extent to which the GIF was driven by the top level of Government rather than within government departments. Depending on where you are situated in the policymaking process, this could be a source of frustration or expediency.

The final point that needs to be made is that while MED was central to evaluating and benchmarking the GIF, and implemented many of the micro-level

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90 Ibid.
91 Interview with senior policy advisor at the Ministry of Economic Development and the author, recorded and transcribed with Option B consent (unidentified as source), date and location undisclosed.
industry and regional development programmes that resulted, no one government department was responsible for overseeing all the GIF policies, and in this sense it was described as a ‘whole-of-government’ approach to economic development:

There was a machinery government type dimension to it... How do you have an economic policy, or an economic strategy across a whole range of government? A whole lot of different departments all operating quite separately under a particular management system... around ministers and chief executives with particular delegations to particular areas, and then you’ve got someone who tries to cut across all of that. So there was a lot of thinking at the time and a lot of talk about learning and so on. And this is a classic government exercise, the GIF.92

Other government departments played considerable roles, not in the development of the policy framework, but in implementing and monitoring individual policies. MoRST, FoRST and the Tertiary Education Commission adopted the policy framework quite quickly,93 and MoRST and Statistics New Zealand started collecting data on innovation and R&D. Other departments covering the full range of policies indicated in Chapters Five and Six also had roles to play, although MED and Treasury were most central.

Conclusion

The evolution of the Fifth labour Government’s economic development strategy, the GIF, did not happen in a vacuum. Internationally, commentary about the role of knowledge (or information) in the economy (or society, or both) has led to a diverse range of interpretations of the transformative impact of knowledge. Many of these commentaries over-emphasise the extent to which social relations within capitalist

92 Ibid.
93 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
societies have been fundamentally transformed. The Marxist perspective employed in this thesis identifies that technological change has always been a feature of productive capitalist societies. Rather than fundamentally altering capitalist class relations, it is argued that capitalism has reached a stage of maturation that is characterised by what Wood terms the “universalisation” of capitalism: in other words, capitalist social relations have been extended, not just by globalisation but also by furthering the commodification of labour power to the intellectual or creative dimension.

Related to this is the particular historical juncture that has been created by the fact that an ever larger share of the world’s production is being generated in what was once known as the Third World. The unfolding of this truly historical transformation has and is compelling the OECD nations to become ‘knowledge economies’ and to dismantle many of the structures and practices that were put in place during the period of the Golden Weather. With this development there was a paradigmatic shift in thinking about how the state should manage the economy. The response has been increased protection of the knowledge resource via a greatly expanded use of the concept of intellectual property and the World Trade Organisation, a shift in emphasis from the management of demand to the institutionalisation of supply-side policies that can enhance competitiveness and profitability, and the use of market forces and a reconstituted reserve army of labour as instruments of regulation that can motivate economic agents to increase the emphasis they accord the need to remain competitive and facilitate the dismantling of ‘rigidities’ that were established during the period of the golden weather.

The New Zealand Labour Party has its historical roots in the trade union movement and was responsible for the introduction of Keynesian demand
management in response to the Depression as well as the establishment of the extensive welfare state enjoyed through the long period when productivity growth and profitability remained high. However, part of Labour’s historical legacy is that they also introduced the neoliberal agenda to New Zealand, and while the associated programmes were extended under the Fourth National Government both parties lost considerable support from their traditional voters as a result. Combined with the introduction of the MMP electoral system in 1996 and the emergence of smaller political parties that were now competing with Labour and National for a share of the party vote, Labour needed to rebrand and did so by positioning itself closer to the centre left: while they did not reject Rogernomics, they did attempt to refine some of the more extreme elements of National’s social policies, as will be seen in Chapter Six. Even before their election to Government, the party was starting to consider the need for a more focused economic development strategy, and innovation became central to their attempts to stimulate economic growth.

However, despite Labour’s lack of rejection of Rogernomics, in the immediate aftermath of the 1999 election victory, the business community became ever more concerned about the need for a sophisticated development strategy, and the more so once the Labour Government weakened its capacity to ‘drive’ workers by compelling them to negotiate in good faith. This development required the Government to work more closely with business in order to understand what might be possible and to reassure business audiences that they recognised and accepted the need for a development policy that could preserve the profitability of their firms and assets. The response of business and employer interests to the GIF was mixed, but cautiously supportive. Finally, it is important to note that while Treasury continues to have a powerful influence over the formulation of policy, particularly but not limited to the
economic sphere, the GIF was formulated at a high level in consultation with the public via the SIAC, but directly answerable to the top tier level of government: the Prime Minister’s Office. Even the MED, who were charged with implementing and monitoring many parts of the GIF, were not directly involved in formulating it. The thesis now turns to the formal consultation process that resulted in the GIF.
Chapter Four

Making the Knowledge Wave:
Formulating the Growth and Innovation Framework
1999–2002

Introduction

The formulation of the Growth and Innovation Framework (GIF) took place during the Fifth Labour Government’s first term. The release of the document entitled Growing An Innovative New Zealand (hereafter GAINZ) marked the completion of this process in February 2002. The main purpose of this chapter is to clarify the role of specific interest groups on the formulation of aspects of the policy framework as they coalesce into a “vision” or cohesive collection of policies. This is intended to provide insight not only into the influence of class interests on the state but also the various
“intra-class” divisions of interests that influence policy formulation. The chapter begins by providing a brief sketch of what is known as “innovation economics” in order to clarify why the promotion of innovation was a key focus of the Science and Innovation Advisory Council (SIAC) that was charged with producing the GAINZ document. It then proceeds to overview the membership of the Council, the formal consultation conducted when preparing the Growth and Innovation Framework, and highlights key points made in the submissions that were received as a consequence of commissioned research and SIAC’s decision to call for public comment on an initial draft. Finally, a comparison of the original SIAC proposal and the final form of the GIF is presented, to demonstrate what remained and what was removed and conclusions drawn about the role of the state in an arena containing opposing class interests.

4.1 The Science and Innovation Advisory Council and the Government Consultation Process

The consultation process carried out by SIAC focused on developing a growth and innovation strategy for New Zealand. With a measurable decline in the rate of productivity growth and the emergence of an increasing number of low wage competitors in the global economy nation states and firms have become ever more conscious of the need to innovate and to facilitate the innovation process within enterprises and economies. A useful distinction can be made between the terms “invention” and “innovation”. The notion of invention refers to an “action of finding or finding out; discovery” in the form of a new idea, method, or physical technology, often to solve a problem (the Shorter OED, see footnote, cites Middle English as the
source era for this usage).

Innovation on the other hand also refers to novelty, but incorporates the more incremental application of change: the “alteration of something established” or a “change in something”. Interestingly, in commercial circles it was introduced into late Middle English to refer specifically to the introduction of a new product on the market.

The more contemporary use of the word innovation in preference to the word invention may reflect the pervasiveness of capitalism. It certainly reflects the growing concern of policymakers that the contribution of innovation to profitability and economic growth are captured. In fact, it has been observed in the Economist that despite the discourse describing capitalist societies as being in the technological age, the growing pervasiveness of incremental innovations over transformative invention reflects that capitalist societies are becoming less innovative, and that this development explains the declining rate of productivity growth and profitability.

While we often associate technological progress with major inventions or developments in technology that have a significant transformative impact, a significant amount of innovation is incremental. In the context of capitalism, innovation predominantly occurs under the driving force of competition. Both product and process innovations can help give firms a competitive edge. This is not a new phenomenon: Drahos and Braithwaite describe the “laboratories of knowledge” set up during the eighteenth century fin de siècle to produce an industrial research base, where Edison was a pioneer: his laboratory in New Jersey an “invention

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2 Ibid., pp 1373—4.
factory”: aiming to produce “a minor invention every ten days, and a big one every six months or so.”

Within neoclassical economics, since the mid-1980s technological progress has been reassigned an endogenous role in determining economic growth. Thus recent decades have seen the emergence of what is known as Innovation Economic Theory (IET). This perspective locates innovation at the centre of the economic growth model and holds that innovation can be affected by policy. This encouraged economists to begin to formally model ideas about knowledge accumulation, as it is expressed by technological change, and many authors have incorporated the concept of human capital into such models. Other authors have emphasised the role of externalities from the accumulation of knowledge on rates of economic growth. Grounded in

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5 Ochoa, O. A., 1996, Growth, Trade and Endogenous Technology: A Study of OECD Manufacturing, MacMillan, Hampshire, pp 2-3, p 9. Arrow was one of the first to try to model the economic implications of experience as it leads to increased productivity over time (see Arrow, K. R., 1962, “The Economic Implications of Learning by Doing”, in The Review of Economic Studies, v. 29 n. 3 (June 1962), pp 155-73). In his work, he attributes technical change to experience, or “learning by doing”, arguing that the productive process naturally “gives rise to problems for which favourable responses are selected over time”. In the paper he uses cumulative gross investment as an index of experience over time, on the assumption that each new machine effectively changes the production environment and acts as a stimulus to learning. Considered a seminal work, this model was one of the first to suggest an endogenous theory of knowledge as it affects productivity.

6 Romer, P., 1986, “Increasing Returns and Long-Run Growth”, in The Journal of Political Economy, v. 94 n. 5 (Oct 1986), pp 1002-37 & Lucas, R. E. (Jr), 1988, “On the Mechanics of Economic Development”, in Journal of Monetary Economics, v. 22, pp 3-42. In many respects, Romer’s 1986 article presents a logical progression from Arrow’s work, in that the accumulation of the stock of knowledge is considered to be a key determinant of the level of output (although Arrow conceptualises knowledge as an element of capital). Romer’s adoption of the concept of externalities to distinguish between the social and private rates of return derived from the accumulation of knowledge essentially allowed him to forge a link between the microeconomic variables of market structure and returns to scale, and macroeconomic outcomes (specifically, productivity growth). While capital and labour can be almost exclusively held as private goods, insofar as they are commodified, knowledge has properties that make it difficult to privatise entirely, and as a result, its accumulation leads to externalities. Because it is very difficult to keep knowledge entirely secret, knowledge accrued by firms in the production process and as the outcome of R&D activities benefits not only their
Schumpeter’s notion that evolving institutions, entrepreneurs, and technological change are the key drivers of economic growth IET holds that stimulating innovation must be a central goal of policy makers and its generation should not be left to market signals alone, although. IET theorists interpret this in a range of ways, from those that support a neoliberal supply-side focus to perspectives that are more critical of the market generally. In brief, what IET theorists hold in common is that they accept that policies designed to stimulate growth must include the provision of innovation infrastructure (for example, providing funding for R&D and assistance to commercialise innovation), the recruitment of and/or generation of workers who have the capacity to be innovative (through education, development of skills and training and immigration), and the development of environments in which potential innovators can benefit from the externalities associated with incubators, clusters, networks and collaborations, etc.

The GIF’s promotion of economic growth through innovation was presented as a broader strategy for economic transformation that incorporated goals for social development and improved standards of living. For this reason, we need to identify the implicit and explicit links between policies that superficially appear to be disjunct when their inclusion in GIF documentation suggests some alignment of these policies. Pete Hodgson (as Minister for Research, Science and Technology) announced the productivity, but also that of the economy, because it becomes part of the general pool of knowledge available to all, and in doing so, reduces the duplication of basic research costs that firms incur. Lucas also included externalities in his 1988 model, although he incorporated them into human capital. Assuming that individuals make some attempt to acquire human capital, he argued the individual stock of human capital would rise over time as a function of this effort, and the level of human capital previously reached by the individual.

composition of the SIAC committee on 21 June 2000 and explained that its main functions were as follows:

- increase the public status and recognition for scientists and science;
- promote a long-term, strategic direction for research, science and technology;
- build private-sector commitment to new science and technology policy directions; and
- enable co-ordination of Government policies and community activities at the highest level.\(^8\)

SIAC was presented as an intermediary between the community and Government, combining consultative and advisory roles respectively. In this regard, Hodgson described it as ensuring “Government policy is related directly to stuff that works in the community”\(^9\), and as having members from a range of backgrounds, representing different interests: “I expect the SIAC members to come from diverse areas including the academic and science communities, business, the Maori community and the general public.”\(^10\) Subsequently, he explained that when selecting Council members the “chief criteria were creativity and independence. The people on SIAC also share a wealth of experience and understanding of how New Zealand’s innovation system functions and how it can be improved.”\(^11\) In practice this appears to have meant Council members were drawn from across the corporate sector. Seven of the original nine members at time of appointment had the title of Chief Executive or Managing

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\(^9\) Hodgson, P., cited in Beehive, 2000, “A Think Tank for the Knowledge Economy”.

\(^10\) Ibid.

Director as the primary role identified in their profiles, with a number of them holding various directorships of professional bodies and some advisory roles to Government. The remaining two included a member of senior management at Christchurch Polytechnic, who also held directorships and board memberships; and Michael Walker, a prominent academic scientist at the University of Auckland, with senior administrative experience in the tertiary sector as well as directorships in Crown Research Institutes (CRIs).12

While all of the SIAC members represented industries and/or businesses in which R&D activities were important, private sector employer interests dominated the original composition of the Council, with some limited representation of those involved in senior management of publicly funded R&D. In its original form, SIAC contained no representation of trade unions, or women who were not in business roles. This is despite Phil O’Reilly’s claim in the previous chapter that as a general rule the Government took a tripartite view of policy-making, suggesting that growth and innovation was not deemed an area where this approach was deemed to be applicable. While some members were said to be involved in the community, this was largely in senior administrative roles rather than at participatory level. In addition, SIAC contained no significant representation of the education sector except for the afore-mentioned Michael Walker, who was particularly concerned with the innovative potential of young Maori.13

In August 2001, at the Knowledge Wave Conference, Prime Minister Helen Clark released two policy documents produced by SIAC, entitled *New Zealanders: Innovators*

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12 Ibid. Michael Walker is the son of prominent Maori historian and social commentator Ranginui Walker.

13 Hodgson, P., *Interview with author (recorded and transcribed).*
to the World: Turning Great Ideas into Great Ventures: A Proposed Innovation Framework for New Zealand (hereafter the Proposed Innovation Framework, or PIF) and New Zealand’s Innovation Report Card: Lots of Potential, Can Do Better. The first presents a ‘vision’ for New Zealand, comprised as a list:

- A great place to live, learn and do business
- The birthplace of world-changing people and ideas
- A country that the rest of the world dreams of living in
- A place where people invest in the future.⁴

The PIF begins by emphasising the role of innovation in helping the economy to grow, particularly given the constraints of distance from key markets, the small size of the New Zealand economy, and the source of ideas (the human capital, or population, or knowledge).⁵ The majority of the text then outlines seven challenges New Zealanders face if they are to ‘transform our economy’. The following details these challenges, with the specific challenge wording highlighted in bold.

The first challenge was to reward ‘can-do, risk-taking, and success, and emphasises the need to celebrate success and cultivate a positive attitude towards success. Thus strong leadership is advocated to communicate the message of economic transformation, the (de)regulation of business to support entrepreneurship, and the reduction of compliance costs for small and medium-sized enterprises.⁶

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⁵ Ibid., see pp 4–5.
⁶ Ibid., pp 9–10.
Challenges Two and Three focus on fulfilling employers’ labour market needs. Challenge two centres on the need to **educate for a knowledge economy**, by increasing the emphasis of secondary education on “technology, entrepreneurialism and wealth creation,”\(^{17}\) and by aligning the tertiary sector with “our economic and social development needs.”\(^{18}\) This challenge posits a number of measures to introduce technology into schools and improve the general quality of the education system and also suggests a leading role for business in designing the curriculum with respect to innovation and enterprise. The accompanying *Innovation Report Card* suggests the number of high school leavers with no qualification (34 percent) needs to be reduced, and that the education system needs to work better for Maori and Pacific peoples.\(^{19}\) The third challenge, **becoming a “magnet nation for talent”**, is also related to ensuring the work force meets the skill needs of businesses. Specific recommendations include increasing the number of highly skilled migrants to New Zealand, improving the skills of the existing labour force, and networking to take advantage of expatriate talent.\(^{20}\)

Challenge Four, **generating wealth from ideas and knowledge**, sets out goals to increase private sector investment in research and development, in part to “ensure better focus and relevance for our overall research effort.”\(^{21}\) This is underpinned in the *Innovation Report Card* with data indicating that New Zealand has a high level of government-funded R&D there is a low rate of private sector investment in research relative to the OECD average.\(^{22}\) In addition, it is argued that “business and researchers

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\(^{17}\) Ibid., p 11.

\(^{18}\) Ibid., p 11.


\(^{20}\) PIF, p 13–4.

\(^{21}\) Ibid, p 15.

need to collaborate more to ensure we focus research and commercialisation on
relevant, high-value opportunities”

23 and increase the nation’s capacity to
commercialise intellectual property generated by government agencies. In policy
terms, the main focus is on the need of business to grow and become more innovative.

Challenge Five, to excel globally, is concerned with identifying areas in which
New Zealand has a distinct advantage, and the targeting of support to promising
development areas: “We need to rebalance to secure advantages in those new
economic activities where support is needed: trading intellectual capital-intensive
products and services; creative content products; weightless products.”

24 In support of this proposition, the Innovation Report Card notes the New Zealand economy
predominantly consists of low-technology industries, as compared to the mix
characteristic of a so-called knowledge economy. The implication of this is that policy
needs to be directed towards integrating “sundry effective government and private
sector economic development programmes into a coherent NZ Inc national economic
development strategy from which investment can be prioritised — and review and
revise ineffective programmes.”

25 Finally, with respect to this challenge, there is a goal
of ‘maximising Maori entrepreneurialism’. This goal is achievable because:

Many iwi have large resource asset bases, or are in the process of regaining
them through Treaty settlements. Maori have unique knowledge and a
unique global presence. We must ensure that Maori are able to make the
fullest use of the physical and human assets, and their intellectual property,
to expand their entrepreneurial activities. Maori have a valuable, unique
global brand, and must be able to leverage it fully themselves.

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23 PIF, p 15.
24 Ibid., p 18.
25 Ibid., p 18 (emphasis in the original).
26 Ibid., p 19. Iwi is the Maori term for tribe, and the reference to the Treaty refers to the Treaty of
Waitangi, New Zealand’s founding document.
However, no mention is made of how this could be achieved in practice.

Challenge Six, **encouraging innovation by networking, collaboration, and clustering**, is concerned primarily with encouraging links between sectors and across disciplines. To facilitate this collaboration, it is deemed important to improve the national information technology infrastructure. Finally, the seventh challenge, **take an investment-driven approach to government**, emphasises that the state should lead by example when it comes to innovation, but also makes the argument that the public sector needs to be rationalised under conditions of fiscal constraint, ensuring value for money in the delivery of public services, including, but not limited to, R&D.

On behalf of SIAC, Clark invited feedback on the PIF, and the Council followed up by sending written invitations for feedback to 112 individuals, some of whom represented specific interest groups. These groups included those advocating for the general interests of business and employers, industry associations (including some with a considerable research function), and a small number of companies. In the case of education, smaller numbers of groups representing the early childhood, primary, and secondary levels were specifically invited to give feedback, as were individuals and groups representing the tertiary sector and other research institutions. SIAC subsequently released two reports summarising the responses to the PIF generated through the formal consultation process. The more substantial report deals with the written feedback received, through invited submissions and a questionnaire on the SIAC website, of which public notice was posted in the major daily newspapers. Both the formally written submissions and the responses to the online questionnaire are considered to be submissions for the purposes of the SIAC report.

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27 Ibid., pp 20–1.
Given the SIAC was heavily weighted toward the corporate sector the Council deemed it wise to cover the significant gaps in the consultation process. Consequently, a one day “Wider Representation Workshop” was held at Victoria University of Wellington that it was claimed was designed to draw comment from the community and voluntary sectors and from Maori and Pacific communities and migrants, though notably not from organised labour. The resulting report contains useful insights into the concerns of these groups most of which related to the fact that:

1) the PIF focuses predominantly on business interests;

2) attention must be given to innovative ways of reducing social inequities; and

3) the narrow focus on education and immigration policies with respect only to labour market needs does not give due consideration to the broader needs of those who are most directly affected (for example, children and migrants).

This one day consultation was presented as an example of the Government’s wish for feedback from the general public but given the loaded nature of the Council observers may have been forgiven if they viewed this effort as window dressing. This observation is of relevance in light of the different capacities of interest groups to organise and lobby government and will be discussed in Chapter Six. In the meantime, sections 4.2 and 4.3 of this chapter consider the policy issues which arose during the SIAC consultation process. They involve a consideration of the feedback from different interest groups as presented in the submissions and the final GIF documents, in order to examine what feedback was incorporated and what was ignored.
4.2 Major Interest Groups’ Perspectives on the GIF

Table 4.1 summarises the sources of all of the written submissions received by SIAC, including those submitted online:

<table>
<thead>
<tr>
<th>Interest Group Representing</th>
<th>Number of Submissions</th>
<th>Names of Submitting Organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Associations</td>
<td>5</td>
<td>– New Zealand Business Roundtable&lt;br&gt;– Business New Zealand&lt;br&gt;– Federated Farmers&lt;br&gt;– Waikato Chamber of Commerce and Industry&lt;br&gt;– Canterbury Manufacturers’ Association&lt;br&gt;– New Zealand Business Council for Sustainable Development</td>
</tr>
<tr>
<td>Individuals identified as from business, not writing on behalf of that business</td>
<td>2</td>
<td>– Rick Boven of Boston Consulting Group&lt;br&gt;– Two employees of Agriculture New Zealand (Wrightson)</td>
</tr>
<tr>
<td>Trade Unions</td>
<td>3</td>
<td>– New Zealand Council of Trade Unions&lt;br&gt;– New Zealand Post Primary Teachers’ Association&lt;br&gt;– Association of University Staff</td>
</tr>
<tr>
<td>Industry and Professional Associations</td>
<td>7</td>
<td>– Institute of Professional Engineers New Zealand&lt;br&gt;– New Zealand Association of Science Educators&lt;br&gt;– Research Medicines Industry&lt;br&gt;– Asia 2000 Foundation&lt;br&gt;– Antarctica New Zealand&lt;br&gt;– Pacific Foundation for Health, Education and Parent Support&lt;br&gt;– New Zealand Vice-Chancellors’ Committee</td>
</tr>
<tr>
<td>Government Agencies</td>
<td>4</td>
<td>– Creative New Zealand&lt;br&gt;– Ministry for the Environment&lt;br&gt;– Te Puni Kokiri&lt;br&gt;– Careers Service</td>
</tr>
<tr>
<td>Political Parties</td>
<td>1</td>
<td>– New Zealand Democratic Party</td>
</tr>
<tr>
<td>Individuals</td>
<td>46</td>
<td>– New Zealand Democratic Party</td>
</tr>
<tr>
<td>TOTAL</td>
<td>79</td>
<td>– New Zealand Democratic Party</td>
</tr>
</tbody>
</table>
As Roper observes, business associations have an inherent structural advantage over other interest groups in society because “the state is structurally constrained by its fiscal dependence on revenue derived from... the process of capital accumulation.”

Despite this influence, organisations representing the interests of businesses are not a homogeneous group. Rather, while some generalisations can be made, different sections of capital have many distinctive features. In terms of the influence of capital over the state, these differences reinforce or constrain the capacity of various elements of capital to influence policy, and this varies over time and with respect to the policy in question, as well as in response to the balance in class forces.

Three of the most important characteristics of capital that can prove divisive are: a) the size of capital (large-scale corporations versus the corner shop); b) different productive and circulatory functions of capital (for example between financial and industrial capital) and between different industry sectors, representing different types of production and their specific needs (for example, between primary production and manufacturing); and c) the reality that individual firms operate in competition with each other, with respect to generating profits. This section will highlight some of these similarities and differences with respect to business perspectives on the PIF.

By far the most prominent organisation in New Zealand representing the interests of large scale capital at the time of the SIAC process was the New Zealand Business Roundtable (NZBR). Established in the mid-1970s, it began as a group of industrialists helping each other to, among other things, “stiffen the resolve of

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29 On the 1st of April 2012, the New Zealand Business Roundtable merged with the New Zealand Institute to become a new research institute or think-tank run by leading business people. See their website at http://nzinitiative.org.nz for more information.
employers in industrial matters.” In 1987, one source cited a *New Zealand Herald* article which described the then membership of 32 men as heading companies that account for 49.1 percent of the New Zealand share market, and comments “the name ‘Business Roundtable’ invites a parallel with the cabinet table around which elected ministers are supposed to run the country.” As at May 2011, the membership consisted of 52 chief executives of the major firms in New Zealand. The NZBR had considerable resources at its disposal and was a prolific producer of publications outlining its position on numerous policy issues, as well as collected volumes of speeches made by its members. It lobbied government directly via detailed submissions on a wide range of policy issues, and represented the needs of big business, because “its members [saw] themselves as having sufficiently distinct interests that the existing employer-representative bodies (Employers’ Federation, Manfed, etc) [did] not adequately cater for them.”

Business New Zealand was and is the largest organisation representing the general interests of business. It lobbies government on the political issues of the day and routinely generates significant publication outlining their position on areas of policy.

Three major trade union organisations responded in submission form to the PIF: the New Zealand Council of Trade Unions (NZCTU), the New Zealand Post Primary Teachers’ Association (PPTA), and the Association of University Staff (AUS). In 2006, the NZCTU represented over 300,000 union members belonging to 37 affiliated trade

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32 See www.nzbr.org.nz.
unions, which cover all industries.\textsuperscript{34} It makes submissions on a wide range of issues directly concerned with working conditions and wages and salaries, and also publishes statements on a broad array of economic and social policies, including immigration, the General Agreement on Trade in Services (GATS), and welfare benefits.\textsuperscript{35} The PPTA represents secondary school teachers, and while its submission in this instance indicated a broad social democratic vision for New Zealand, it predominantly campaigns on issues in the education sector. Its membership totaled 16,869 for the year ending 2005.\textsuperscript{36} Similarly, AUS (now the Tertiary Education Union, or TEU) represented both academic and general staff employed in universities around the country, but while it maintained a core focus on campaigns directly related to the tertiary sector, such as student loans, funding levels, staff workloads, and, of course, remuneration, it was also outspoken on broader issues of economic and social policy.\textsuperscript{37}

Finally, the New Zealand Vice-Chancellors’ Committee (NZVCC) represents the eight universities in New Zealand albeit with some bias from a management perspective. The NZVCC advocates on behalf of the sector, including through the preparation of submissions to select committees and other government forums.

4.3 Building Effective Innovation: Incorporating Feedback to the SIAC

For clarity, the interest group responses will be considered as they best fit in relation to each of the challenges presented in the PIF document. While those making

\textsuperscript{34} See the NZCTU website at http://www.nzctu.org.nz/about/index.html, accessed 22 August 2006.
\textsuperscript{36} New Zealand Post Primary Teachers’ Association, 2005, Annual Report 2005, p 42.
\textsuperscript{37} For the New Zealand Post Primary Teachers’ Association, see www.ppta.org.nz. In 2009, AUS merged with the Association of Staff in Tertiary Education (ASTE) to become the Tertiary Education Union (TEU). See www.teu.ac.nz for details.
submissions did not generally follow this format (the only formal structure being that provided in the online submissions, as they were guided by specific questions), the submissions were responding directly to the contents, and perceived omissions, of the PIF document. By examining responses to each challenge, it becomes more straightforward to assess the impact of the feedback process as it impacted on the content of the GIF and subsequent policy documents. The positions taken on the proposed challenges by each group mentioned in this chapter are summarised in Appendix D.

4.3.1 Challenge One: Reward ‘Can Do’, Risk-Taking and Success

Business New Zealand called for the development of tools for the financial sector to enable business to better evaluate risk.38 This call is backed up in submissions from individual businesses. There is support for leadership from the Government, although as expected there is also a rejection of Government intervention in the form of taking on risk: this is seen as an appropriate role for businesses, not government. But while insisting that government should leave business free to embrace the risks involved in being innovative, the business sector argued that the state should reduce its share of the tax and regulatory burden though this process is never described as a subsidy. Federated Farmers offered that such reform would be good for domestic businesses and would attract innovative capital and labour from overseas:

There is little in the paper on the role of government regulation in constraining economic development and imposing unnecessary costs on the business sector. Given that capital and skilled labour is internationally

38 Clark, N., 2001, online submission (representing Business New Zealand) to SIAC on the Proposed Innovation Framework.
mobile, it is important that regulatory and tax burdens in New Zealand are competitive with best international practice.\textsuperscript{39}

Interventions and regulations that require an effort or expense from business are deemed to have a negative impact on productivity because it allegedly reduces the resources that firms have available to become innovative. In this regard, the NZVCC cites the “choking off” of innovation in biotechnology research, due to the cost of complying with the Hazardous Substances and New Organisms Act 2001.\textsuperscript{40}

But while business interests did not perceive the call for a reduction of the tax and regulatory burden as a subsidy this is the way the demand was perceived by the PPTA:

we need to know what “reducing business compliance costs” actually means because if it means employment “at will”, denial of access to the personal grievance provisions and removal of accident protection, PPTA would not support it and would question how such policies could possibly lead to a more cohesive society.\textsuperscript{41}

In brief, the PPTA objected that reducing the burdens carried by business were simply burden shifting:

We are doubtful that freeing business from their social responsibility to pay tax will as suggested, will inevitably lift economic performance. A reduction in taxes and compliance costs in one sector means costs to others. Other taxpayers must pay more, or accept a reduction in the quality and quantity of state-provided services such as police, health, education and

\textsuperscript{39} Federated Farmers of New Zealand, 2001, written submission to SIAC on the \textit{Proposed Innovation Framework}, provided under the Official Information Act 1982 by the Ministry of Research, Science and Technology, p 7.


\textsuperscript{41} New Zealand Post Primary Teachers’ Association, 2001, written submission to SIAC on the \textit{Proposed Innovation Framework}, p 3.
defence. Secondary teachers who pay personal tax and GST and do not have the capacity to right-off [sic] expenses and who, in effect, subsidise the New Zealand tax-base by making their cars, computers and other facilities available for school use are unlikely to be impressed by arguments that they should bear the burden of entrepreneurial experimentation.\footnote{Ibid., p 2 (spelling error in the original).}

As we will see later, trade unions are more divided on the issue of whether R&D expenditure should be subsidised.

### 4.3.2 Challenge Two: Educate for a Knowledge Economy and Challenge Three: Becoming A “Magnet Nation for Talent”

Business New Zealand was the most outspoken on the issue of skills as it relates to workplace literacy and technical skills, and this concern is reflected throughout their submission.\footnote{Ibid.} Its perspective was broad based as was reflected in an observation offered by one of its constituent parts, the New Zealand Manufacturers’ Federation, in its 2000 submission on the Education Amendment Bill:

> A critical element to the growth of the economy and New Zealand’s competitiveness is having available a skilled and flexible workforce capable of meeting the changing requirements of the marketplace. The existence of such a workforce is dependent in turn on having a world class education system. An education system based on the principle of excellence in delivery and performance, particularly when benchmarked globally.\footnote{New Zealand Manufacturers’ Federation, 2000, written submission to the Education and Science Committee on the Education Amendment Bill, 8 May 2000, p 4.}

Clearly the business community sees the role for education as primarily employment driven, whereas other interest groups see education and the contribution that education can make to facilitating innovation within society as having a broader purpose.
The submission made by the Information Technology Association of New Zealand (ITANZ) made a more specific plea suggesting that an innovation would be enhanced if the education sector was to develop entrepreneurial potential in students: “The education system should teach from an early age that it is OK to want to work for yourself and the curriculum should introduce what skills and knowledge is needed to do so.”45 Business New Zealand also refers to “anti-business sentiment in the education system, which reinforces negative perceptions about risk taking or success.”46 Overall, there is a general consensus that education should be more closely aligned with the business community’s understanding of the values and skills that are required to promote growth and innovation.

In contrast, the PPTA actively opposes the introduction of these values (rather than skills) into the curriculum:

At the same time, qualities such as entrepreneurialism, risk-taking and wealth creation are assumed to be skills when they are more accurately, attitudes and values. The distinction is important because there tends to be general agreement about the skills which students need to be taught at school but the inculcation of selected attitudes and values is considerably more controversial. It is not clear that the New Zealand community is prepared to have schools actively promote the values set out in this report. Many New Zealanders, for example, would strongly oppose the identification of wealth creation as a core value.47

46 Clark, N., 2001, online submission (representing Business New Zealand) to SIAC on the Proposed Innovation Framework.
SIAC’s *Wider Representation Report* supports this perspective insofar as it can be seen to be an expression of a general concern about the emphasis of the role of education as preparing individuals for labour market needs, rather than considering the value of education in society and for individuals more broadly. In response to the GIF Vision Statement, one participant remarked:

> The statement emphasises the role of education as an investment and the situation of children whose education is an investment as future citizens — innovators. It does not value the place of children in society in the present. Education must also be about valuing the contribution of children to society as children. Education must enhance children’s lives in the present.\(^{48}\)

This was later extended by further questioning of the nature of talent, and who should be providing the answers:

> But additionally, it must represent the wider needs of people over their lives: “Who defines talent? How long term will it be valued? Pacific people were imported for their labouring talents in the 50’s and 60’s — that talent has become redundant and the value has long gone in the minds of many Kiwis”.\(^{49}\)

This scepticism is also backed by the university sector. The NZVCC makes a very public spirited statement about the role of a university education for individuals and for society, but implicitly suggests that the needs of society do need to match those of the economy over time:

> The universities would resist a framework in which their research and teaching were driven solely by the perceived economic and social needs of the day. In these times of rapid change and uncertainty our best people will be those who are capable of critical, independent thought and who have the

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\(^{49}\) Ibid, p 17.
ability to rapidly adapt, learn and respond creatively. In essence, this is the value of a university education.\textsuperscript{50}

AUS endorses this view, although it defines what is in the public good more broadly:

We endorse the need to ‘educate for a knowledge economy’, although we believe the emphasis should be on the more inclusive ‘knowledge society’. Educating for narrow economic goals alone will not be sufficient to successfully carry New Zealand forward into the 21\textsuperscript{st} century. Reducing the benefits of tertiary / university education to the directly economic and the specifically vocational would ignore broader, vital needs — social, cultural, democratic, as well as economic.\textsuperscript{51}

As we will see in section 4.4, this resistance to the narrow focus of education as meeting the needs of the labour market and the economy is ignored in the Revised Innovation Framework.

Of course, all of this leads to discussion about the funding of education. In terms of the students underachieving at school and thus finding it difficult to become actors who are innovative, the PPTA comments that:

such students are not scattered through the school sector but are concentrated in low-decile schools. Funding mechanisms over the last 10 years have systematically transferred funds from low-decile to high-decile schools. Consequently the TIMSS [Trends in International Mathematics and Science Study] finding that New Zealand has the highest gap between high and low achievers is not surprising.\textsuperscript{52}

\textsuperscript{50} McWha, J. A., 2001, written submission (letter) (representing the New Zealand Vice-Chancellors’ Committee, to SIAC on the Proposed Innovation Framework, p 2.

\textsuperscript{51} Association of University Staff, 2001, written submission to SIAC on the Proposed Innovation Framework, August 2001, p 2.

\textsuperscript{52} New Zealand Post Primary Teachers’ Association, 2001, written submission to SIAC on the Proposed Innovation Framework, p 8.
In the case of the universities, underfunding has been an issue for some time, and an urgent call is made by AUS to resolve the issue of student loans: “We endorse the goal of a ‘more highly qualified labour force’. We believe, however, that the current student loans scheme is a major constraint on achieving this goal and a fundamental review of current policy is urgently needed.”

This brings us to Challenge Three: Becoming A “Magnet Nation for Talent”. Even business associations consider that the student loan scheme requires reform, largely to harness the talent of those leaving the country. The Waikato Chamber of Commerce and Industry recommends a bonding scheme, while Business New Zealand suggests “add a goal of encouraging New Zealanders to return and make use of expatriate New Zealanders. Developing a critical mass of talent in key areas is also important.” The author of the Power Beat International submission is much more sceptical about the role of universities, arguing for an increase in polytechnic funding and a reduction in university funding, on the basis that universities are “extremely inefficient”. Power Beat International also advised that a radical scaling down of the public sector would make a major contribution to growth and innovation:

We lock up far too much potential talent in non-productive government employment, including universities, government research organisations, government bureaucracies, government companies, government advisory bodies, government service systems and the like. These people aren’t available for private business and have no incentive to be genuinely

54 Clark, N., 2001, online submission (representing Business New Zealand) to SIAC on the Proposed Innovation Framework.
productive... Far too many NZ civil servants are overpaid while doing unnecessary and pointless work. It would be much better if the potential good people captive in the civil service were fed out to private enterprise.⁵⁶

4.3.3 Challenge Four: Generating Wealth From Ideas and Knowledge

Challenge Four involves ensuring appropriate levels of funding for the right mix of private and public sector R&D. There are repeated calls from almost all interest groups for increased investment in R&D activities, as a key source of economic growth and innovation. AUS was continuously calling on the Coalition Government to increase the level of investment in publicly funded R&D. Around the same time, the NZBR was arguing against government intervention in R&D markets in the form of increased investment and in so doing insisted that investment should be limited to public good research, that is, to fields likely to enhance business interests.⁵⁷

The submissions reveal considerable polarisation between business associations, trade unions, and the education sector with respect to the link between funding and economic growth. The report suggests that public sector funding is at an appropriate level, and that the private sector needs to be encouraged to invest more. Business organisations disagree, observing the implied criticism ignores various costs borne by the business community and insisting its R&D is less miserly and more prudent, focused and efficient. Federated Farmers expresses this defense most clearly:

The paper makes strong and repeated assumptions about the perceived inadequacy of research and development (R&D) expenditure by domestic

⁵⁶ Ibid., p 1.
companies, but implies that the government’s contribution is reasonable by international standards. It is important to differentiate between quantity and quality in respect to R&D... It may well be relevant for many New Zealand companies and enterprises to purchase R&D on international markets rather than invest domestically in such research. Moreover, the nature of products and processes will determine what level of R&D is appropriate. Rational business will only invest in R&D if they expect a rate of return which is acceptable, given the opportunity cost of investing in R&D as opposed to other investments.58

Business New Zealand observes: “We are concerned that the goals are focused entirely on Government funding of investment — we need more assessment of when private sector funding would be more appropriate.”59 It recommends reducing the Public Good Science Fund in order to subsidise more projects that are undertaken directly by business. AUS disagrees:

[The PIF] states that there is: ‘relatively good Government R&D investment, but worse in the private sector.’ We note recent increased Government funding investment in this area, but our understanding is that Government funding of R&D remains lower than the OECD average. We applaud the current Government’s target of investing 0.8% of GDP in R&D by 2010, but emphasise that this will merely return New Zealand to the level of investment achieved in the 1980s. Accelerated and increased investment is urgently needed.60

The role of universities is seen in almost all submissions as crucial to growth and innovation, but in different ways. On the one hand, representatives of both university management and staff see universities as having a central role to play in the framework if funding levels increase substantially. Thus the NZVCC:

agrees with the general thrust of the SIAC approach and is encouraged by the high level of commitment that the current Government has to it. As we have signaled above, the universities can make a major contribution to national innovation in the form of internationally competitive teaching and research. We can only hope that this potential is recognised in the form of internationally competitive funding levels.61

AUS support the role of universities in a knowledge economy and the argument for what it deems to be appropriate funding:

A successful innovation framework requires a high-quality university infrastructure. If the universities are to play their essential part, they must be mandated and appropriately funded to retain and expand their concentration on research and postgraduate education.62

However, the Waikato Chamber of Commerce and Industry sees the universities as having quite a different role to play, with an emphasis on the commercial side of innovation: “The Universities [sic] need to be revved up here, in spite of the rhetoric they are slow to capitalise on innovation”,63 with the implication being to encourage universities to more actively think about commercialising innovation as appropriate. Possible mechanisms for doing this include emphasising the focus on the links between education and business in the form of collaboration and partnerships, mentoring, and directing funds to “quality” research by improving the cost effectiveness of the tertiary sector.64

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63 Saunders, S. A., 2001, online submission (representing the Waikato Chamber of Commerce and Industry) to SIAC on the Proposed Innovation Framework.
64 GAINZ, for example, pp 34–5 and 39.
4.3.4 Challenge Five: Excel Globally

Diverging perspectives emerged with respect to the challenge to excel globally which congregate around the idea of developing a distinctive New Zealand Inc. approach. Business representatives are sceptical about the idea that collectively branding the production activities of New Zealand is likely to enhance growth and innovation. Indeed, Business New Zealand considers it is not always in a company’s interests: “We question the emphasis on ‘branding’ — it might help us feel good but the commercial or economic value is questionable. For example, some major exporters make a conscious decision not to brand their products as being from New Zealand.”

The individual business submissions concur: there is general rejection of the idea of a nationally managed brand, with businesses preferring individual choice. Likewise, the idea of the government “picking winners” is rejected.

The unions, in contrast, would like to see New Zealand branded or marketed in quite specific ways. AUS argues:

We should not be reconciled to New Zealand’s current position as a ‘low wage’ economy — as referred to in the Report. The academic workforce operates in a highly mobile international labour market and while ‘lifestyle’ may be a significant factor in employment decisions, it is clear to us that urgent attention will also have to be given to pay for academics and scientists. Salaries for university academics did not keep pace with inflation throughout the 1990s and remain well below that of our international counterparts.

Similarly, the NZCTU advocates changing the phrase encapsulating the Vision for

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65 Clark, N., 2001, online submission (representing Business New Zealand) to SIAC on the Proposed Innovation Framework.

New Zealand to include the word “work”: “A great place to live, learn, work, and do business.” This suggestion was taken up by SIAC in the *Revised Innovation Framework* and is also in the GIF, although neither framework has any reference to what improved working conditions might contribute to growth and the development of an innovative culture and workforce.

### 4.3.5 Challenge Six: Network, Collaborate and Cluster

The recommendations in the sixth challenge were criticised for suggesting the government should have a role in coordinating networking opportunities for people, as it would be inefficient:

The greatest driver to the formation of networks is that they generate returns, either in terms of information flows, ideas and education, etc. Individual market participants are in the best position to determine how to source such information, without interference from centralised plans and policies to try and achieve what the market achieves on a daily basis.

However, Federated Farmers does prescribe a role for the state in subsidising the information and communication technologies infrastructure, for health and safety concerns in rural communities, as well as to encourage participation in the knowledge economy, as the “digital divide” has “already impacted adversely on rural communities.” More interestingly, the Wider Representation Workshop generated a discussion that was far more focused on enabling communities to participate in society and in the economy in ways that would further growth and innovation. It is

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67 New Zealand Council of Trade Unions, 2001, covering letter to their written submission to SIAC on the *Proposed Innovation Framework*, provided under the Official Information Act 1982 by the Ministry of Research, Science and Technology, p 1 (emphasis in the original).


69 Ibid., p 10.
interesting that with respect to the task at hand (generating feedback on a government policy) the participants did not propose that the basic terms of reference should be fundamentally challenged. There is a call for recognition of the productive capacities of those outside the business world: “The risk is that the focus will be just on doing this in the business world and missing the opportunities that other networks etc. can generate.”

The general vision for New Zealand presented at the beginning of the PIF document proposes a society in which we “encourage and support everyone to fulfil their potential, and to prosper.” The participants in the Wider Representation Workshop saw that as meaning we need to “look after those in need” and have a goal to “have a fair society that is built on trust and respect for each other.” Interestingly, however, there is no suggestion that the interests of the community, should be prioritised over business interests.

4.3.6 Challenge Seven: Take an Investment-Driven Approach to Government

The general approach to investment in the PIF is not to invest substantially more resources, but to redirect existing resources in order to ensure a better return. This is backed up indirectly or directly in many of the individual business submissions. For example, Rick Boven (a founder of the Boston Consulting Group) makes this sound quite clinical: “In order to justify the investment, understand the returns the Government will get, quantitatively and qualitatively.” The NZCTU sees investment as much more broadly applied:

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71 PIF, p 3.
72 Notes from a phone call with Rick Boven, Boston Consulting Group, 24 August 2001, p 9. SIAC included this as a written submission, provided under the Official Information Act 1982 by the Ministry of Research, Science and Technology, p 3.
If there is one key point we would like to make it is to stress the need for an investment approach in the modern infrastructure – knowledge and skills. But it also means investing in physical infrastructure and encouraging ongoing capital investment... For our part, we think that what will be required is a much more significant role for the State if we are really to move forward.73

Correspondingly, there is less emphasis on quantitative dimensions of cost-benefit analysis, rather the emphasis is on a qualitative role for government in promoting investment.

This brings us to an overall summary of what the various interest groups said about the PIF. In the relatively short (two page) submission of the NZBR, there was support for the goals of the PIF, but it also raised two overlapping areas of disagreement over appropriate ways in which to achieve these goals. Firstly, the submission expresses concern that there is a lack of economic theory present in the membership of the SIAC, resulting in the document not being grounded in the economics literature. However, this manifests in a lauding of neoclassical economics and a rejection of the notion that if handled carefully the state can and should “pick winners” who are likely to further growth and innovation. Federated Farmers is in clear agreement with the NZBR:

The paper has a strong bias towards “collectivism” and “picking winners”, assuming that governments can somehow predict the future and hence make determinations as to which sectors (or even sub sectors) should be backed through selected targeted assistance. New Zealand’s history of government and industry involvement in picking winners should provide a basis for steering well clear of selective channeling of resources simply due to the fact that the future is uncertain. Individual businesses, driven by the profit motive, are in the best position to determine where to put

resources, not governments through the use of taxpayer subsidies.\textsuperscript{74}

This comment demonstrates a clear preference for the notion that the state should subsidise business by reducing corporate taxes but should not choose which sectors to favour. By contrast, the NZPPTA criticises the report for its lack of substance and evidence:

PPTA strongly supports the basic propositions of this paper that New Zealand needs to lift its economic performance and to increase its social cohesion but is doubtful that the proposals in this document will do either of these things. The evidence provided in the report is sketchy at best. Moreover, the absence of hard data, the regrettable evangelical tone and the use of persuasive language more appropriate to marketing and advertising campaigns make it very difficult to assess the validity of the proposals.\textsuperscript{75}

In other words, there is support for the vision from both business and trade unions, but considerable disagreement over how it can and should be achieved.

\subsection{4.4 Commissioned Reports as Part of the SIAC Process}

The SIAC also commissioned what appears to have been an influential report this being in the formulation of the GIF: the Boston Consulting Group’s \textit{Building the Future: Using Foreign Direct Investment to Help Fuel New Zealand’s Economic Prosperity} and LEK Consulting’s \textit{New Zealand Talent Initiative: Strategies for Building a Talented Nation.}\textsuperscript{76} The first is mainly concerned with the arguments for increasing foreign direct

\textsuperscript{74} Federated Farmers of New Zealand, 2001, written submission to SIAC on the \textit{Proposed Innovation Framework}, p 4.

\textsuperscript{75} New Zealand Post Primary Teachers’ Association, 2001, written submission to SIAC on the \textit{Proposed Innovation Framework},” p 1.

investment (FDI) in New Zealand, a premise which is generally accepted in the GIF. While this reflects a political agenda that is of interest to groups other than business, it has clearly missed some key points made by the trade unions in the SIAC submissions, so the focus of this section is on the second of these reports.

New Zealand Talent Initiative was completed in November 2001 for the Prime Minister, Cabinet and business leaders to consider, and it provides useful insight into the rationale behind some policies, and responses to it illustrate the terms on which the policy debate was conducted. Some key points are worth noting about the scope of this document and its underlying assumptions. The section entitled “The Importance of Talent”, 77 states that talent is encapsulated in individuals. Knowledge workers are good examples of this, as their superior value creation is assumed to be reflected in their earnings. 78

The report argues that because talent is value-creating, its combination with capital drives innovation, which ultimately increases productivity and generates growth and wealth, and hence we need to attract and support talent. However, rather than emphasising the role of education in improving the skill levels of all workers, the report makes the case that talent is different to learning, as it relies on natural ability. 79 In the context of declining per capita GDP and the migration of workers in general, especially to Australia,80 the departure of corporate head offices, emerging skill gaps

78 Ibid., p 14.
79 Ibid., p 15.
80 Interestingly, although the report describes this problem as a “brain drain”, it follows the same line as Treasury in arguing that New Zealand is losing people of all skill levels faster. In the report’s terms, the “brain drain” concept is relevant because the government is only really concerned with the loss of highly skilled workers, not with the loss of workers generally. It also refers to the limitations of its own data, given that 50–60 percent of those leaving the country to live do not specify an occupation.
and a declining ratio of skilled immigrants to those leaving, the policies they prescribe are very much focused on making it easier for talented people, for the most part ignoring the needs of the rest of the population.\footnote{NZTI, pp 17–24.}

At face value, this might appear to be out of concern for talented people themselves, but in every one of the ten objectives listed in the document, the policy prescriptions are predominantly employer focused. This is very clear, for example, in objective one: “intensify the talent hunt for immigrants”, where the policy prescriptions prioritise matching skills with the needs of employers, via schemes ranging from accrediting selected employers to issue talent visas to fast-track good applications,\footnote{Ibid., p 32–3.} and the need to “reduce employer concerns (real and perceived) around overly bureaucratic immigration processes”.\footnote{Ibid., p 35.} Overall, it is recommended that employers should be far more closely involved with the immigration process, and develop closer partnerships with the New Zealand Immigration Service.

\textit{New Zealand Talent Initiative} recommends marketing New Zealand as a place that talented people would want to live, through:

a) encouraging immigration of those who can make money, (that is, the talented),\footnote{See, for example, Objective 2: “Develop Auckland as New Zealand’s Global Lifestyle City” (pp 42–9) and Objective 6: “Brand New Zealand” (pp 72–9).}

b) attracting investment from both the private sector and at a personal
level, from the talent elite,\textsuperscript{85} and

c) networking the talent that exists both in New Zealand and overseas, for the benefit of the New Zealand economy.\textsuperscript{86}

Overall the document promotes an elitist perspective, by being pre-occupied with a group that is described as being inherently deserving of this special attention, because of their natural endowments. An example:

During both the Industrial Revolution and the Information Age, learning was codified and transferred to others. Talent is different. Raw talent can be provided with some of the skills to succeed, but because Talent [sic] also relies on natural ability, talent itself cannot be codified and passed onto others.\textsuperscript{87}

The report’s recommendations are based on these assumptions, with their strong individualistic underpinnings. For example, one recommendation is to establish an invitation-only talent club (with potential invitees being both people living in New Zealand and New Zealanders pursuing international careers) containing very top talent, and to link members with top employers.

The final objective identified in the document is the only one which looks more broadly at the needs of all young New Zealanders with respect to their globally competitive skills.\textsuperscript{88} Again, however, while some mention is made of the lower achievement levels of lower socio-economic groups, the focus is still on the need to ensure there are enough appropriately qualified graduates to meet the needs of

\textsuperscript{85} See, for example, Objective 3: “Halt the loss of Talent Activities to Australia”, pp (50–54), Objective 5: “Communicate a National and Personal Wealth Creation Framework” (pp 62–71), and Objective 8: “Secure Talent-rich “Branded” Organisations to New Zealand as They Grow” pp (89–93).

\textsuperscript{86} See, for example, Objective 7: “Global Community of New Zealanders” (pp 80–8) and Objective 9: “Connect New Zealand Talent to the World” (pp 94–7).

\textsuperscript{87} NZTI, p 15.

\textsuperscript{88} Ibid., p 98.
business. This report was clearly influential as many of the suggestions made in the report have been incorporated into the GIF.

Two final points need to be made with respect to the report. Firstly, the key sources of information identified by the authors include “business and senior management, government departments, immigrants, expatriate New Zealanders, qualified (degree level) New Zealanders aged 20-39 years, and executive search consultants.”

There is no mention of trade unions, wage and salary earners generally, educational institutions, or other groups representative of the wider population. For example, the document refers to the Tertiary Education Advisory Commission and the Tertiary Education Strategy, without asking tertiary education institutions, students, or the sector’s trade unions what they think about the role of tertiary education in the talent initiative.

Secondly, in a document that is firmly focused on the global market for talent, no mention is made of wage rates as a mechanism for attracting talent. This not surprising as New Zealand wage rates are well below their counterparts elsewhere in the OECD, and are a key reason motivating people to leave the country. The issue is kept off the agenda by asserting that wages are linked to “value creation for innovative employees” and that innovative employees’ “superior value creation” is reflected in their earnings.

The key message supports the opinions of the private sector presented in the submissions and emphasises the needs of business over those of individual workers,

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89 Ibid., p 2.
90 Ibid., p 2
91 Ibid., p 15.
by advocating for: a) education that is more closely aligned with business and giving employers some control over which immigrants gain entry to New Zealand, and b) an elite and individualistic approach to networking and recruiting talent that ignores the contribution of ordinary workers. While some mention is made of enhancing workers’ skills, no attempt was made to consult with them, and no mention is made of improving New Zealand’s low wage rates.

4.5 What Was Left In and What Was Taken Out? A Comparison of the PIF and the GIF

A comparison of the PIF and the final GIF demonstrates that suggestions from business were largely adopted. Table 3.3 contains a direct comparison of the contents of the original PIF, and the final version of the GIF as presented in the GAINZ document:
### Table 4.2 Comparison of the PIF and the GIF

<table>
<thead>
<tr>
<th>Proposed Innovation Framework</th>
<th>Growth and Innovation Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing of compliance costs</td>
<td>Much more heavily emphasised: see section “An Open Competitive Microeconomy” (p 28)</td>
</tr>
<tr>
<td>Government leading risk-taking</td>
<td>Business as authoritative risk-takers – weakened emphasis on national branding (p 44)</td>
</tr>
<tr>
<td>Linking the employer needs and business values on the one hand, and the education sector on the other</td>
<td>Strong emphasis on all levels of the education sector being more closely aligned to meet needs of employers (pp 37—43)</td>
</tr>
<tr>
<td>Addressing the funding crisis in education</td>
<td>Some new initiatives, but not substantially increased funding (pp 38—41).</td>
</tr>
<tr>
<td>Commercialising ideas</td>
<td>Much more heavily emphasised: R&amp;D tax breaks, small amounts of funding in private and public sectors (thematic through pp 31—57 but especially pp 32—36)</td>
</tr>
<tr>
<td>Embracing the concept of knowledge society</td>
<td>Any mention of redistribution of income is ignored. Rather, broad statements about lifting all New Zealanders’ living standards (p 6, pp 12—14)</td>
</tr>
<tr>
<td>Branding New Zealand (NZ Inc idea)</td>
<td>Reference made to NZ being a good place to work, but no mention of NZCTU’s comment on wages or other ways to ensure this, other than noting the Employment Relations Act 2000 (p 28)</td>
</tr>
<tr>
<td>Government spending to be investment-driven</td>
<td>Refocused, rather than substantial new spending (thematic through pp 31—57)</td>
</tr>
</tbody>
</table>

Business concerns about compliance costs emerge as primary in the GIF. The concern from business to reduce regulatory burdens is heavily emphasised, comprising a section of its own, “An Open Competitive Micro-economy” (p 28). This section details efforts the Government has made with respect to freeing up international trade and encouraging competition, as well as reducing specific regulatory burdens, reflecting a desire to satisfy business interests but argues that further support needs to be directed to furthering business interests. The concerns of trade unions receive no attention, other than the vague observation that New Zealand needs a common sense of purpose, and reassurance:

People do not want the focus on productivity and economic growth, the
knowledge economy, to compromise their own future, or that of their children, communities, or the environment. While they want opportunities to improve their skills, they want reassurance they will share in the benefits of economic growth.\footnote{Science and Innovation Advisory Council, 2001, \textit{Revised Innovation Framework}, December 2001, p 15.}

The idea that the knowledge economy requires a skilled labour force underpins the policy prescriptions in the subsection of GAINZ on “Developing Skills and Talent” (pp 37-43) with three strategies being highlighted: growing more talent, attracting overseas talent to live and work in New Zealand, and harnessing the talent of New Zealanders living overseas (for New Zealand businesses) strongly reflect the input from the \textit{New Zealand Talent Initiative} document commissioned by the Council.

There was considerable disagreement in the submissions over the extent to which business and employer needs should influence all levels of education. This perspective is absent in the final GIF but what is very much present is the need to commercialise public sector and university innovation, that is to subsidise firms by permitting them to capitalise on the state’s investment in research, as well as assist businesses to commercialise their own innovation (pages 33—36). In terms of funding research activities, the GIF proposes the provision of further subsidies to private R&D, advocates relatively small amounts of new funding in both the private and public sector through new schemes, ignores the call for a general increase in education funding, and advises that public sector research should be become more competitive and excellence driven, through initiatives like the Performance Based Research Fund.

A comment from the NZCTU saw the knowledge society as more broadly encompassing all individuals in its outcomes:

Unions see the knowledge economy as part of the knowledge society — not
the other way around. There has to be a public dimension otherwise knowledge as an infinitely renewable resource will be increasingly captured, as have many other resources, by narrow commercial interests.\footnote{New Zealand Council of Trade Unions, 2001, covering letter to their written submission to SIAC on the PIF, p 4.}

Nothing of this nature appears in the final version of the GIF case for what needed to be done to enhance growth and innovation in New Zealand.

**Conclusion**

The purpose of this chapter has been to examine the SIAC consultation process, which took place in the lead up to the formulation of the GIF. This is important to this thesis because it helps clarify the nature of the policymaking process in New Zealand, providing insight into which interest groups are listened to in the consultation process and which are ignored. There are some important points to make about this process. When the intention to form SIAC was first announced, Pete Hodgson initially indicated that the membership would be quite diverse, but as we saw in section 4.1, the membership was private sector dominated and did not contain any representation of trade unions. The alignment of class-based interests is very clear from reading the submissions. The details of areas of agreement and areas of contention are explored in sections 4.2 and 4.3. The submissions generated and gathered by SIAC in various forms contain a wide range of perspectives on the role of innovation in the economy and society, and related policy issues. It is clear that while there is some differentiation, business associations and individual businesses are in agreement about their approval of aspects of the framework (for example, increasing state subsidies by reducing compliance costs). They also demonstrate their agreement about their objections to elements of the framework (for example, the notion of the
Making the Knowledge Wave

government “picking winners”. Likewise, there are areas of agreement between the trade unions. They tend to comment more broadly on the role that education, and on how providing for the rights of workers to satisfying work and fair remuneration, can contribute to growth and innovation.

What is most interesting is that while a great many suggestions from business were adopted the concerns of the trade unions that focused on broader social issues and workplace satisfaction and remuneration were notably absent from the GIF. This reflects the nature of the policymaking process and the context in which the Fifth Labour Government was operating, trying to reassure business that their intervention in the economy would be focused on supply side business assistance rather than forms of intervention that might diminish business power or impose significant costs on firms. The omission of trade union representation on SIAC also can arguably be taken to imply the Government’s claimed commitment to tripartism was limited and did not extend to wider economic and development issues. However, the policy focus in this chapter is not sufficient to establish the extent to which class-based interests determined the overall agenda of policymaking. The next two chapters outline the GIF policies in detail and examine their intellectual and political underpinnings.
Chapter Five

Class-Based Interest Groups and the Politics of an Innovation-Based Economic Strategy

Introduction

The Introduction to this thesis states that the GIF was chosen as the central focus of this study because it is the most comprehensive expression of the Fifth Labour Government’s approach to economic management and policy making. The policy document Growing an Innovative New Zealand (GAINZ) constitutes the systematic outline of the GIF and therefore is the starting point for considering the Government’s approach to economic and social development, although other policy that is consistent with the GIF approach will also be considered in Chapter Six.
The GAINZ document is described in the Introduction to the thesis. To briefly recap: the document is 63 pages long, and contains three sections describing the vision and economic objective, the framework itself, and finally a section on the framework’s implementation. The first section sets out the “vision and economic objective” of the document, and describes the constraints holding New Zealand back in growth and productivity terms: its size and its distance from other economies, which to address New Zealand needs to become more globally connected and integrated into the global economy. This is a particularly acute problem because of the recent shift in the international division of labour. While globalisation has led to an increase in exports, they have tended to be concentrated in a small number of industries and have not been significant enough to substantially lift economic growth.¹ It is argued that New Zealand cannot rely entirely on the innovative capacity of primary production, and that innovation must be encouraged across all sectors, because innovation is seen as the key driver of economic growth.² The document identifies several issues that need to be addressed if other sectors are to become innovative, and proposes a proactive role for the Government in encouraging innovation, in contrast to the deregulation approach embraced from 1984 to 1999 but consistent with the notion that it is the supply and not the demand side that policy makers need to make their primary concern in the current era. The final section of GAINZ outlines the approach to be taken to implement the framework.

This chapter and Chapter Six are focused on the intellectual and political underpinnings of specific policies, and therefore are primarily concerned with the middle section of the document that outlines the GIF in concrete policy terms. It constitutes about half of the document and sets out the Framework itself in two

¹ GAINZ, pp 15–17.
² Ibid., pp 14–15.
parts: “Strengthening the Foundations” and “Building Effective Innovation”. “Strengthening the Foundations” is covered in five pages and outlines many of the already existing structural characteristics of the New Zealand economy, and identifies small scale social reforms needed to alleviate the worst effects of fifteen years of neoliberalism. There are five elements to this foundation: a stable macroeconomic framework, an open, competitive micro-economy, a modern cohesive society, a healthy population, and sound environmental management. These elements reflect a commitment to the neoliberal regime established prior to 1999 in that they endorse a lightly regulated microeconomy (pp 27-8) but modify the earlier agenda by accepting the need to accord increased attention to social policy, health, and the environment. These issues will be examined in detail in Chapter Six.

This chapter provides a detailed examination of the policies listed in the second section, which is entitled “Building Effective Innovation”. This section is much longer (twenty-four pages) and contains four specific strategies: listed in subsections entitled “Enhancing the Innovation Framework”, “Developing Skills and Talent”, “Increasing Global Connectedness”, and “Focusing Government Resources”. These strategies are intended to address the commercialisation of research activities, education and training to support a knowledge-based economy, and the need to integrate New Zealand’s economy with the rest of the world. The final strategy identifies three sectors that the Government intended to target, in which New Zealand has a competitive advantage: biotechnology, information and communications technology (ICTs), and creative industries.

One final point needs to be made about the nature of the GAINZ document. The middle section of GAINZ sets out individual policies that are considered, for the purpose of this thesis, to constitute the GIF. It is a political document, aimed,
according to Hodgson as we saw in Chapter Three, “at business and at government.” While there is a detailed introduction and setting out of the vision, the document does not go into background detail about each policy, or provide any commentary that gives insight into the rationale for individual policies listed in the document. For that reason, when examining the underlying rationale and outcomes of these policies, it has been necessary to refer to the wider literature on each policy area (such as policy documents, Budget Speeches and commentary from key actors) rather than simply relying on the text of the GAINZ document. In addition, when considering the effects of these policies on the material interests of groups in society, empirical data and commentary from key interest groups provide insight into the impact of the policies.

This chapter is divided into two sections. Section 5.1 examines the first three strategies listed in “Building Effective Innovation”: those entitled “Enhancing the Innovation Framework”, “Developing Skills and Talent”, and “Increasing Global Connectedness”. However, it is important to note that while there is considerable congruence between the interests of individual actors aligned with capital and labour, there are also areas of potential conflict. Section 5.2 examines two areas of policy where class interests are somewhat fractured: the fourth strategy of “Focusing Government Resources” and the perception of anti-farming sentiment in the GIF.

5.1 Building Effective Innovation: Innovation, Talent, and Global Connectedness

The part of GAINZ on “Building Effective Innovation” argues that the Government needs to strengthen New Zealand’s innovation system and by so

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3 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
doing enable New Zealand to become “a source of high value innovation in particular sectors of the global economy”:

[W]e must increase the value of our commodity and manufactured exports by applying more world class knowledge and innovation, and appropriate branding. In essence our exports need to reduce in weight and become heavier in knowledge and value.

To achieve this, we need a vibrant and well integrated innovation system which is capable of creating wealth from ideas.

GAINZ cites work done by both the public and private sectors, which allegedly had induced a consensus that effective innovation must be the driver of New Zealand’s economic growth: “We need an economy which encourages and rewards the creation and commercialisation of good ideas and which aggressively promotes the adoption of new ideas throughout the economy.” The GIF contains four specific strategies to build innovation. These are “Enhancing the Innovation Framework”, “Developing Skills and Talent”, “Increasing ‘Global Connectedness”’, and “Focusing Government Resources”. In the context of an approach that is broadly neoclassical but accepts the state can and should assist industry to become more innovative, these strategies contain a number of policy initiatives that need to be explained with reference to the economic literature on innovation and growth. The first three of these strategies are considered in this section, and the more fractured class response to “Focusing Government Resources” is considered in section 5.2.1.

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4 GAINZ, p 32.
5 Ibid., p 32.
6 Ibid., p 32.
5.1.1 “Enhancing the Innovation Framework”

The subsection entitled “Enhancing the Innovation Framework” (pp 33–36) presents initiatives designed to help commercialise research activities. The Government acknowledged the importance of R&D by introducing new funding as well as increasing existing funding for various R&D related initiatives. However, creating an environment that is generally more conducive to innovation is also considered to be crucial:

But we recognise that we must continue to enhance the quantity, the quality and the relevance of R&D in New Zealand. And we must give greater emphasis to ensuring that more of our R&D leads to economic benefit through commercialisation of the ideas generated, i.e. we must put more effort into innovation not just research.7

The increase in R&D funding could be interpreted as an example of the state performing an interventionist role. This could appear to contradict the Fifth Labour Government’s commitment to the free market. In reality, neoclassical economic theory allows some scope for government intervention, which is informed at a technical level by reference to “market failure”. It is widely acknowledged in the literature that markets are prone to failure in the delivery of R&D activities, because of their high start-up costs and delayed profitability.8 Within the neoclassical economic tradition, there is a theoretically identifiable point at which the state should intervene to ensure the provision of a “socially optimum” level of R&D activity. The point at which market failure sets in is informed by marginalist economic principles. However, the New Zealand Business Roundtable reminds us that governments should be careful in addressing this issue:

7 Ibid., p 33.
A stronger argument for government involvement in R&D is that, especially with basic research, the returns are too diffuse for private companies to undertake such investment. This ‘market failure’ argument is the basis for public funding of so-called public good research. However, this is a difficult area for government intervention and the case for it should not be overstated... Much new technology derives from existing technology, and indeed applied technology often precedes any deep understanding of the underlying theory. Nor does state investment in R&D necessarily translate into an increase in overall R&D spending — studies suggest that governments which provide major funding displace private sector activity.\(^9\)

Examples of increased research funding listed in the GIF include the establishment of the Venture Investment Fund, increases to the Marsden Fund and the New Economy Research Fund, new funding for the Centres of Research Excellence, the doubling of grants for private sector R&D, and the establishment of an incubator development programme. The overall funding increases in R&D are summarised in Table 5.1 below:

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Table 5.1  Summary of Funding Allocations to GIF Policies that Increase Funding to R&D Activities by Budget Year 2000 to 2005 ($ thousands)\textsuperscript{10}

<table>
<thead>
<tr>
<th>Budget Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Total Funding Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>From VOTE Research, Science and Technology:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venture Investment Fund established</td>
<td>N/A</td>
<td>100,000\textsuperscript{11}</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Marsden Fund</td>
<td>25,839</td>
<td>27,839</td>
<td>30,839</td>
<td>32,789</td>
<td>34,289</td>
<td>33,928</td>
<td>185,523</td>
</tr>
<tr>
<td>New Economy Research Fund</td>
<td>50,781</td>
<td>53,084</td>
<td>55,084</td>
<td>63,884</td>
<td>70,384</td>
<td>61,586</td>
<td>316,201</td>
</tr>
<tr>
<td>Grants for private sector R&amp;D</td>
<td>11,800</td>
<td>0</td>
<td>8,522</td>
<td>See NZ Trade and Enterprise</td>
<td>20,322</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL VOTE\textsuperscript{12}</td>
<td>422,577</td>
<td>421,443</td>
<td>445,359</td>
<td>497,907</td>
<td>554,983</td>
<td>632,993</td>
<td>2,975,262</td>
</tr>
</tbody>
</table>

These funding increases have all been directed at addressing perceived deficiencies in R&D funding. Rather than being based on Keynesian principles of state investment to address deficient demand through specific microeconomic interventions, they have taken the form of general increases in spending (via specific funds), likely to lead towards successful innovation. In brief, they are supply side and not demand side driven, a situation that reflects business, state and union recognition that the primary need in a context of a declining rate of productivity growth and rate of profit is to create new wealth not distribute the limited wealth that exists. Once particular areas have been identified in which the market has failed to provide adequate funding for R&D, any funding increases are


\textsuperscript{11} In the 2001 Statement of Appropriations for VOTE Research, Science and Technology, this figure is listed as ‘Crown Seed Capital Fund’ (see page 15).

\textsuperscript{12} Total appropriations for each year are given in the table ‘Trends in Vote Research, Science and Technology – Summary of Financial Activity’ in Vote Research, Science and Technology 2005, Budget Volume 5 vol II, p 1112. These have been used in this case for a comparable run of data.
injected at a general level towards the chosen sector with the Government remaining removed from the process of “picking winners”, a situation business could not support and hope to remain united in lobbying the state for subsidies. This general approach reflects a belief that market forces should decide what projects should be funded on a commercial basis, rather than the state making those decisions for political reasons. This is consistent with the shift in science and technology policy along neoliberal lines outlined in Chapter Three.

In some cases, funding policies have been clearly tailored to better meet the needs of innovating businesses, either those already established or those in the earlier, start-up stages. For example, a reported deficiency in seed investment led to the announcement of the establishment of the Venture Investment Fund in the 2001 Budget, designed to “accelerate the development of the venture capital market in New Zealand”.13 This fund represents an effort to improve the overall functioning of a microeconomic unit, the equity market, but without the Government intervening directly: as the Chief Executive of the fund points out, the Government is not an “active investor”, but works in partnership with private sector investors, and is fully commercially focused.14 News of the Venture Investment Fund was enthusiastically received by most entrepreneurs and company directors: for example, in an article in the New Zealand Herald seven directors were interviewed and only one considered the scheme unnecessary, because in his particular case he had not experienced difficulty accessing investment funds.15 A year earlier, in 2000, the Government announced a range of

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13 GAINZ, p 34.
14 Banga, F., cited in Peart, M., 2008, “Capital Injections for Business”, Management, July 2008, p 55. Franceska Banga has been the Chief Executive of the New Zealand Venture Investment Fund since it was established in 2001.
new policy initiatives to assist small and medium sized enterprises (SMEs) to raise capital, which were surveyed in an article published in the *Chartered Accountants Journal*. The article concluded that it was “an exciting time for SMEs and entrepreneurial companies. These new initiatives provide entrepreneurs and SMEs with several options for funding growth projects and raising capital”.16

Generally, micro-level increases or decreases in state funding do not deviate from the state’s usual function of entrenching the predominant relations of production. In order to have this effect, there would have to be a qualitative change rather than a simple shift in the level of funding. In general, the policy initiatives listed in the GIF do not fall into this qualitative change category, although the establishment of the Venture Investment Fund could be argued to constitute an exception in one important way. The $100 million invested by the Government was not new funding, but was taken from the balance sheets of Crown Research Institutes and state-owned enterprises (SOEs), with each contributing $50 million.17 One of the stated goals of this fund is to improve the commercialisation of innovations undertaken by CRIs, universities and the private sector. However, in reality, the Venture Investment Fund continues to be invested predominantly in the private sector. In other words, while both CRIs and SOEs are subject to commercial constraints and objectives, they are still part of the state apparatus, and the effect of this policy initiative essentially is to further privatise funding that was previously under the control of the state. As can be seen in Table 5.1, the scope of this initiative is small in relation to overall government expenditure, and even in relation to VOTE Research, Science and Technology.18

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18 “Votes” refer to the amount of money allocated in a given year’s Budget to specific policy portfolios.
However, even if all of this money was won back by the CRIs and SOEs as investee companies, the redirection of this funding via the Venture Investment Fund adds a level of contestability to the original funds that did not previously exist.

However, the Fifth Labour Government insisted that encouraging innovation was not just about providing small but general increases in funding. As Hodgson said in the early days of their first term: “Government involvement is not just simply about pouring money into the system. There is a need to help firms to make connections with overseas markets, with universities and CRIs, and with other firms with similar or complementary interests.”19 Within the GIF, such an environment is encouraged by developing links between research and business interests, as such connection is considered conducive to innovation. A range of business support schemes arose from this objective, from programmes and strategies to support and mentor entrepreneurs and innovators, to encouragement for researchers, innovators and entrepreneurs to “collaborate” and “connect” with each other. MED administered an online business practice and performance survey called Firm Foundations which revealed “vulnerability” in many New Zealand firms if they were exposed to international markets:

The study... pointed to relatively low levels of inter-firm relationships or inter-firm learning such as networking, clustering, supply chain relationships, benchmarking. These have been identified by other work as a source of sustainable competitive advantage, a suggestion, says MED, that policies that encourage networking, such as programmes where the Government plays the role of facilitator or honest broker, will make a useful contribution to business development.20


Other examples of this thinking include the adoption of consortia funding to improve links between business and researchers, and the development of partnerships that result in schemes such as business incubators. Importantly, the Fifth Labour Government considered itself a role model in this regard, by applying commercial rigor to its own activities, and becoming an “effective, efficient and innovative” public sector. In prescribing this function for the public sector, Treasury refers to the ongoing rationalisation of the sector predominant through the late 1980s and early 1990s, the principles of which remain relevant.\(^{21}\)

Other measures listed in GAINZ aim to make the innovation market work better, including further reforms to New Zealand’s intellectual property regime, the ongoing review of New Zealand’s capital markets, and the linking of researchers, innovators and entrepreneurs to each other domestically and internationally, through e-strategies and other programmes. Again, the approach is general, non-targeted, and facilitative. Finally, the Government made changes to the tertiary education sector by establishing the Tertiary Education Commission (TEC, partly intended to better coordinate tertiary education provision with other interests, such as business), and by “encouraging and incentivising” universities and CRIs to innovate and commercialise their research activities.\(^{22}\)

Fundamentally, these moderate increases in research funding and the advancement of an environment more conducive to innovation are directed at innovating businesses, rather than innovating individuals. They represent the Fifth Labour Government’s commitment to supporting businesses, both established and


\(^{22}\)GAINZ, 2002, p 35. The introduction of the controversial “Performance Based Research Funding” (PBRF) is a first step in this regard.
establishing, but are divorced from the day to day experiences of workers and attracted little commentary from the general public.

One way in which these policies have an impact on material interests along class lines is through commercial interests of intellectual property rights, as they are designed to ensure the returns of innovation to the owners of intellectual property. In this sense, IPRs can act as a mechanism that unequally distributes the benefits of innovation and economic growth. One GIF policy listed as part of creating an environment conducive to innovation is listed as “improving our intellectual property framework to ensure New Zealand receives full value for our innovations”\(^{23}\). This refers to ongoing amendments to IP legislation to keep it updated, often in response to changing needs in response to technological change, rather than major changes to legislation during this period. The more substantial point is that the GIF, as a strategy focused on increasing innovation rates in order to boost economic growth, is likely to have a disproportionate impact with respect to the distribution of income and accumulation of wealth, generally favouring the relatively more well-off individuals and businesses that own IPRs. In contemporary capitalist societies, IPRs now tend to be held largely by firms or other institutions or organisations rather than individual inventors or teams of inventors. There is a growing literature recognising the limitations of the contemporary system of IPRs for indigenous peoples and in the New Zealand case there are the additional responsibilities created by the signing of the Treaty of Waitangi. Some observations about these issues can be made even though direct GIF related outcomes are difficult to empirically isolate.

Firstly, a sample of issues of the *Patent Office Journal*, published monthly by IPONZ and listing details of applications for patents, revealed some consistency

\(^{23}\) Ibid., p 35.
with respect to who is named as the inventor of a patent, and the assignee, or owner of the patent. In all issues surveyed, patents were placed into four categories (and coded according to colour in the left hand column) as illustrated in Table 5.2:

<table>
<thead>
<tr>
<th>Coding colour assigned</th>
<th>Applicant / Patentee (field 71)</th>
<th>Inventor (field 72)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blank</td>
<td>Firm</td>
<td>Individual</td>
<td>Individual is different to firm, presumably an employee</td>
</tr>
<tr>
<td>Pink</td>
<td>Individual</td>
<td>Individual</td>
<td>Inventor owns patent (the inventor and applicant are the same person)</td>
</tr>
<tr>
<td>Yellow</td>
<td>Firm</td>
<td>Individual</td>
<td>Have same family name, probably self-employed or family member investing.</td>
</tr>
<tr>
<td>Green</td>
<td>Firm</td>
<td>Firm</td>
<td>Firm listed as both inventor and applicant</td>
</tr>
</tbody>
</table>

In all issues of the journal surveyed, the majority of patent applications fell into the first category: that is, an individual inventor or team of inventors is identified on the application, but the applicant or patentee (that is, the potential owner of the patent) is a firm, presumably the employer of the inventor or inventors. This percentage ranged from 78.4 to 85.4 percent of the applications listed in any given issue of the journal. In other words, despite there being examples of employees defending their patent ownership against their employers, there are legal mechanisms through which employers can claim ownership even if the activity was beyond the job description of the employee and was conducted outside work time and resources. The following is a noteworthy example:

A laboratory assistant had been forbidden by his employer from pursuing a particular series of experiments. Despite this, he continued them on his lunch hour and on weekends. Eventually the employee

24 Derived from combinations of results in fields 71 and 72 of records of patent applications, as listed in the Patent Office Journal, published by the Intellectual Property Office of New Zealand, a unit of the Ministry of Economic Development. Fields correspond to questions in the patent application forms.
developed a substance that was worth millions of dollars. The employer thereupon demanded assignment of the patent, and the employee understandably refused. A court ordered the employee to turn the invention over to the employer, and the employee actually served three years in jail rather than comply with the court order.25

In other words, it is quite usual practice for corporations to own patents and other intellectual property of their employees’ inventions if these are generated using the resources of the enterprise or knowledge gained as a consequence of working for the enterprise. It is important to note that this has not always been the case.26 Recent estimations have been made of patents from corporations comprising 80 to 90 percent of the total. In the nineteenth century, employees in Europe and North America were legally entitled to own the rights to their inventions whether or not they were made during employment. According to Mark this shift is due to a change in the interpretation of employment law and the rise of corporations, leading to a shift in which “the courts begin to favour the interests of the employers.”27 One final point: until recently, universities have been seen as somewhat of an exception to this rule, because much of university-based research is publicly funded and the results of this research are publically available. With the widespread commercialisation of education associated with the rise of neoliberalism, this tradition has changed, and in the advanced capitalist societies, universities have been much more assertive over their rights to the intellectual property generated by their employees.28

26 Parker, J. E. S., 1978, The Economics of Innovation: the National and Multinational Enterprise in Technological Change, Longman, London, pp 34–5. In Great Britain in 1913 patent applications from corporations were about 15 per cent of total. By 1938 this percentage was 58 per cent and by 1955 68 percent. In the USA a similar pattern emerges: corporations were responsible for approximately 18 per cent of patents at the turn of the century. By 1936 this figure was approximately 50 per cent. By 1956-60 the percentage was approximately 63
New Zealand’s substantial percentage of patent applications identifying an individual as the inventor but having a company or other employer as the applicant for ownership is consistent with this international trend. Likewise, the category in which the inventor and the applicant / patentee are the same is correspondingly low, ranging from 13.2 to 19.3 percent over the issues surveyed. The two other categories in Table 5.2 are exceptions to the rule. In most cases, they constitute less than one percent of the total, and never exceed two percent. In the case of the ‘yellow’ category, where the applicant and the inventor have the same family name, it seems most likely that the inventor is working in a family owned or self-owned firm. In the ‘green’ category, where the firm is listed as both inventor and applicant it may be that the firm owns the patent and does not see it necessary to name an inventor or team of inventors on the application. In any event, neither category poses a challenge to the overall result, which is that the majority of patent applications are made on behalf of firms as the owner, even when, as in most cases, individual inventor(s) are clearly identifiable.

Of course, this does not tell us anything about the remunerative outcomes of any profitable inventions being returned (or not) to inventing employees. It does however tell us that firms maintain control over most IPRs rather than individual inventors, and that ownership would remain with the firm even if an individual inventor chose to change jobs: the patent would not follow them. Although this is part of an international trend and not directly attributable to the GIF, it is a contemporary reality of industrialised monopoly capitalism. It has implications for distribution of income in the form of profits or wages resulting from successful

innovation, and reflects a class based bias in the advancement of material interests resulting from policies designed to increase the level of innovative activity.

5.1.2 “Developing Skills and Talent”

The subsection on “Developing Skills and Talent” (pp 37–43) is concerned with ensuring an adequate supply of quality “human capital”, that is, meeting the skill needs of a knowledge-based economy. From this perspective, in order for the economy to grow, it is important for New Zealand’s labour force not only to be productive, but also to have a core of “talent” capable of innovation. In GAINZ it is stated that:

to make the jump to a successful high growth economy, we need not only to ensure that all New Zealanders have the education skills they need to be productive members of society, but also we must develop, attract and maintain a solid core of the exceptionally talented, who can lead the way in the innovation stakes.29

Three policy areas receive attention in this regard: growing more talent, attracting overseas talent to live and work in New Zealand, and harnessing the talent of New Zealanders living overseas for New Zealand businesses. The most significant policy prescriptions relate to the first area, and are chiefly concerned with raising participation, in and the efficacy of, the New Zealand education system. Policies include curriculum changes, such as the National Certificate of Educational Achievement (NCEA); programmes designed to improve the performance of specific education sectors, and strategies to develop the sector. Another policy is to improve links between employers and the tertiary sector, to make the education system more responsive to the changing needs of business and industry. Predictably, perhaps, business associations are, as we saw in Chapter Three, primarily concerned with vocational education and the needs of the labour market.

29 GAINZ, p 37.
According to the New Zealand Manufacturers Federation (now part of Business New Zealand):

A critical element to the growth of the economy and New Zealand’s competitiveness is having available a skilled and flexible workforce capable of meeting the changing requirements of the marketplace. The existence of such a workforce is dependent in turn on having a world class education system... The only alternative, if New Zealand is to remain competitive, is to adopt a policy of importing the necessary skills, with the loss of employment opportunities for a locally educated workforce, which that decision will entail.

Such an education system would deliver the basics of reading writing and maths, as well as accommodating the changing requirements of pupils and employers. Its compulsory education sector would equip the young to enter job training or skill enhancement, or the tertiary education sector. It would go on to deliver job training, skill enhancement, retraining or reskilling as well as second chance education at all levels.

The reality in New Zealand is, however, somewhat different. There is growing evidence to suggest that the education system is failing to prepare students for subsequent working life as well as failing to support and underpin what must be a competitive economy by providing the necessary skilled workforce.  

Industry training is a target for specific review and reform and fits into this vision. Successful industry training can improve the life chances of individuals. For example, the Modern Apprenticeships Scheme has provided for some people a pathway into employment, or into a new field. GAINZ acknowledges these social outcomes, but tends to emphasise the extent to which this fits with the needs of the economy, stressing for example that the provision of “a quality education system.

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which is effective for all New Zealanders including Maori, is as much an essential economic policy as it is a social policy goal.”\textsuperscript{31} The effect on the real living standards of employees will be evaluated in Chapter Eight. At this point, it is necessary to highlight that the extent of the Fifth Labour Government’s contribution to industry training has been motivated primarily by a concern for the needs of the supply side; this concern is confirmed by the emphasis on industry needs, rather than on the needs of individuals.

The 2003 OECD Economic Survey of New Zealand commends the Government for refraining from explicitly planning for “manpower” needs.\textsuperscript{32} This approval is given because government intervention in the form of state planning to meet market needs (in this case, the labour market) is frowned upon from a neoclassical perspective, because the market is considered to be a more sophisticated interpreter of its own needs. The term market includes all participants in the market: the education sector, potential employers and students themselves, and the market is the aggregate of their decisions. As Roger Kerr, then Executive Director of the New Zealand Business Roundtable argues:

We should not operate on the assumption that businesses, tertiary institutions and students are irrational. Businesses will hire people whose skills are most essential to their operations — if lawyers are more important than scientists to their survival, they will hire lawyers. For their part, students will go to where the rewards — financial and otherwise — are greatest. And tertiary institutions will heed student and employer demand. If we do not like the outcomes of these rational decisions we should be asking questions about the government’s influence on the environment in which they are made.\textsuperscript{33}

\textsuperscript{31} GAINZ, p 38.
Because in many cases the state retains primary responsibility for education, for example, via the early childhood, primary, and secondary curriculum requirements, business interest groups are calling on the state to tailor education more closely to business needs. Table 5.3 summarises the funding initiatives for industry training and comments on their practical implementation:

<table>
<thead>
<tr>
<th>GIF Reference</th>
<th>Fund</th>
<th>Employer or State Defined</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.16</td>
<td>Modern Apprenticeships</td>
<td>Employer</td>
<td>State provides infrastructure in form of administration, support and qualification framework</td>
</tr>
<tr>
<td>6.18</td>
<td>Industry Training Fund</td>
<td>Employer</td>
<td>Funded jointly by industry and state</td>
</tr>
<tr>
<td>6.19</td>
<td>Technology in Industry Fellowships</td>
<td>Employer</td>
<td>State funded, administered by applicant business, student, and tertiary provider</td>
</tr>
<tr>
<td>6.20</td>
<td>New Technology Fund</td>
<td>Employer</td>
<td>Part of Industry Training Fund</td>
</tr>
<tr>
<td>6.21</td>
<td>Gateway</td>
<td>Employer</td>
<td>State funded and administered by schools and NCEA</td>
</tr>
<tr>
<td>6.22</td>
<td>Workplace Literacy Fund</td>
<td>Employer</td>
<td>State funded, contracted out</td>
</tr>
</tbody>
</table>

These programmes all depend on employers’ willingness to participate, and in most cases must be initiated by employers. Therefore, while there may be positive outcomes for the students and employees involved in these programmes, their introduction has been motivated primarily by the skill needs of employers, and subsequently the programmes focus on supporting employers to provide industry training. The role of the state in meeting the labour needs of capital will be addressed further below.

Similarly, in the case of attracting overseas talent to New Zealand, immigration controls have been modified to prioritise skilled migrants, and to make it easier for businesses to recruit specialist talent from overseas. This
approach ignores the erosion of real wages, which has been endemic for some time, and is widely documented in a range of industries as a primary cause of recruitment difficulties. The last policy area, utilising overseas New Zealanders, is linked to the idea of “increasing global connectedness”, and contains some amorphous initiatives for networking talent internationally. Importantly, the emphasis is on harnessing this productive talent for New Zealand firms:

They’re being touted as an economic answer... There’s an assumption that this kind of person, defined by that snappy collective term “brain drainer”, will be part of an organisation that’s internationally outstanding and that when knowledge acquired there is carried home it will contribute to improved economic growth and higher living standards.34

Again, no real attention is devoted to the influence of relative salary levels in New Zealand, or of the 1990s education reforms which substantially privatised the cost of participating in tertiary education.35 However, Nick Clark, former economic policy advisor for Business New Zealand, points out there is more to this picture than wages:

If you are going to... be a “magnet for talent” people have to be confident they are going to be able to earn a decent amount of money. Part of that is, you’ve got to remember that not everyone is going to be a wage earner, or a salary earner. A lot of the people you’ll want to attract, the talented, are going to be people who are entrepreneurs who are going to try and be self-employed, set up their own companies or whatever. They are not all going to be working in offices behind computers working 9 till 5.36

36 Clark, N., Interview with author (recorded and transcribed), 20 October 2010.
Once it is clear that the effects of a policy do not run counter to or undermine the interests of the general public, it is hard to establish what the state intends the effect of the policy initiatives in this subsection to be in ideological terms, precisely because ideology is pervasive and the state has its own interests and autonomy. For example, in the examples of celebrating New Zealand talent (GIF reference 7.32) and (to a lesser extent) building a talented network of New Zealanders (GIF reference 7.26), there is an element of fostering national pride in our capacity to produce innovative and talented people, as well as a more tangible possible effect of (somehow) harnessing existing talent for the benefit of the New Zealand economy.

These are complex ideas, because they are an emergent matrix of meaning. They can be explained with a concrete example. Many of the policies in this subsection concern the alignment of education with industry and the needs of employers. It is argued that if skills and talent are needed for the economy, and the positive performance of the economy is good for the population as a whole, then education and training should more accurately reflect the needs of employers. This works in the interests of those who are looking for work, because they are more likely to meet the needs of the employer, gain a position and receive due compensation because their skills are actually in demand, and everyone is better off. Clark (formerly of Business New Zealand) spoke about the reward notion in wage negotiation from a business perspective:

In terms of how they are rewarded, the view of business organisations is it’s not the government’s role to set people’s wages. That needs to be a matter between employees and employers, and their representatives in many cases. And really, rather than just say, you know, if you want a five percent wage increase across the board we’ll say well there are probably people out there who deserve twenty percent, and there are probably people out there who don’t deserve any increase at all, and it
all depends on their productivity, motivation, work ethic, all those sorts of things. That’s what should be the determinant of wages.\textsuperscript{37}

The ideological argument on behalf of the capitalist class is that they control production for a reason: they own capital and are taking on investment risk. Because skills and talent are important factors in production, the capitalist class should have a strong say in what education and training is made available. However, it can be argued that production and profitability are not the only outcomes of education: there are broader ways in which education contributes to the public good generally, for example, contributing to the functioning of a healthy and robust democracy. Likewise, engaging in productive activity as an employee is not the only way to be productive in society, but that is how productivity is measured in the national accounts of advanced capitalist countries.\textsuperscript{38}

5.1.3 “Increasing Global Connectedness”

The essence of the argument put forward in the subsection focused on “Increasing Global Connectedness” (pp 44—48) is that economic integration with the rest of the world is critical if New Zealand is to increase the size of its markets. Economic integration is to be achieved through three objectives: the attraction of foreign direct investment, the increasingly aggressive promotion of exports, and the development and advancement of a New Zealand “brand”. All three objectives are expected to have relatively direct outcomes in terms of increasing economic growth, compared to some of the other measures outlined in the GIF.

The task of attracting foreign direct investment (FDI) is approached in a general manner, and the GIF specifically rules out the provision of large financial

\textsuperscript{37} Clark, N., \textit{Interview with author (recorded and transcribed)}, 20 October 2010.

inducements at the micro level.\textsuperscript{39} The Government acceded to a preference for attracting investment on the basis of market strengths that already exist, or by firms that already have a competitive advantage, rather than subsidising and supporting firms and markets directly. This is strategically consistent with what we saw earlier in the case of R\&D investment. For example, funding was directed towards the two agencies that now make up NZT\&E (that is, Trade New Zealand and Industry New Zealand), including the establishment of the Strategic Investment Fund (initially the Major Investment Fund).\textsuperscript{40} The Strategic Investment Fund is independently administered by Investment New Zealand, a business unit of NZT\&E dedicated to promoting investment. Again, the role of the state was largely facilitative rather than operational.

The same model applied to export promotion, which was largely the domain of what is now NZT\&E. While there is some reference in the GIF towards support at the enterprise and cluster level, most policy priorities identified here are again general and facilitative. Programmes designed to help businesses to grow include the Business Grow programme (GIF reference 8.11), the Beachheads programme, which provides a marketing base to new exporters and an incubator programme to small and medium sized businesses (GIF reference 8.17), a Fast Forward programme to help businesses grow and export quickly and support business cluster development (GIF reference 8.12), and credit assistance for at-risk exporters (GIF reference 8.13).\textsuperscript{41} Following standard practice, even when business (particularly small and medium sized business) assistance programmes are fully funded by the government, the assistance role is contracted out to the private sector. This follows the recent trend in the public service for accountability and relevance, and again reflects the preference for the state to intervene with the sole

\textsuperscript{39} GAINZ, p 45
\textsuperscript{40} Ibid., p 45.
\textsuperscript{41} Ibid., p 48.
aim of removing obstacles to businesses trying to grow and export, rather than providing direct assistance.

One policy listed in the GIF is to develop and promote a New Zealand brand as “a great place to invest in, live in and visit”. To this end, NZT&E and Tourism New Zealand created “Brand NZ”, centred around the theme: “New Zealand: New Thinking”, the key purpose of which is to impress upon international markets that New Zealand businesses are creative and innovative.

Three main types of policy intervention are employed to promote FDI and trade: funding of support programmes, active government promotion, and the establishment of additional infrastructure (including legislative) to facilitate exporting and investment. These policy interventions are grouped accordingly in Table 5.5:

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42 Ibid., p 48.
43 Details of the ‘Brand New Zealand’ project can be viewed at: http://www.nzte.govt.nz/section/11772.aspx (accessed 30\textsuperscript{th} April 2006).
### Table 5.4  Summary of Initiatives to Increase Global Connectedness

<table>
<thead>
<tr>
<th>GIF Reference</th>
<th>Policy Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Funding of support programmes</strong></td>
</tr>
<tr>
<td>8.1</td>
<td>Increase funding to Investment NZ</td>
</tr>
<tr>
<td>8.3</td>
<td>Major Investment Fund (now Strategic Investment Fund)</td>
</tr>
<tr>
<td>8.9</td>
<td>Increase funding to Trade NZ</td>
</tr>
<tr>
<td>8.10</td>
<td>Capital expenditure for Trade NZ</td>
</tr>
<tr>
<td>8.11</td>
<td>Business Grow programme</td>
</tr>
<tr>
<td>8.12</td>
<td>Fast Forward programme</td>
</tr>
<tr>
<td>8.17</td>
<td>Beachhead programme</td>
</tr>
<tr>
<td></td>
<td><strong>Active Government promotion of trade and investment</strong></td>
</tr>
<tr>
<td>8.2</td>
<td>Establish offshore investment team in New York</td>
</tr>
<tr>
<td>8.4</td>
<td>Proactive encouragement/facilitation of FDI by Ministers</td>
</tr>
<tr>
<td>8.7</td>
<td>Promote FDI in 3 areas of GIF focus</td>
</tr>
<tr>
<td>8.15</td>
<td>Ministerial/diplomatic effort in new market development</td>
</tr>
<tr>
<td>8.19</td>
<td>Consider increasing government support for overseas trade delegations/missions</td>
</tr>
<tr>
<td>8.20</td>
<td>Brand New Zealand</td>
</tr>
<tr>
<td></td>
<td><strong>Development of infrastructure to facilitate trade and investment</strong></td>
</tr>
<tr>
<td>8.5</td>
<td>Coordinate activities of Investment NZ and Major Investment Fund</td>
</tr>
<tr>
<td>8.6</td>
<td>Seek advice regarding the structural configuration for FDI</td>
</tr>
<tr>
<td>8.8</td>
<td>Review business migration policies</td>
</tr>
<tr>
<td>8.13</td>
<td>Establish Export Credit Office</td>
</tr>
<tr>
<td>8.14</td>
<td>Pursue open trade agreements</td>
</tr>
<tr>
<td>8.16</td>
<td>Monitor existing programmes</td>
</tr>
<tr>
<td>8.18</td>
<td>Coordinate FoRST, Industry NZ and Trade NZ activities</td>
</tr>
</tbody>
</table>
Table 5.5 highlights the fact that although a number of programmes have been funded to help businesses overcome hurdles to growth, the majority of the policies listed in this subsection of the GIF are concerned with promoting international interest in the New Zealand economy, and providing the institutional framework to support the productive and trading activities of businesses operating in New Zealand.

The class orientation of the state is reflected here in a generalised concern for the needs of capital. The main objective is to promote New Zealand brands and enable them to become more established in international markets. While these policies do not specifically and directly work against the interests of the working class, they do provide considerable support to businesses that is not available to individuals or to other groups within society.

5.2 Fractured Class Responses to the GIF

In terms of the major business associations, the responses to the GIF were largely in harmony. There were two areas in which there was the potential for major conflict on the side of capital: the notion of “picking winners and a perception that farming had been ignored by the GIF that was presented in the media. While there are instances of individual companies and farmers being in disagreement with the major associations, for the most part these areas of potential conflict remained unproblematic for the Government. These are discussed briefly below.

5.2.1 “Focusing Government Resources” or “Picking Winners”

The notion of the Government “picking winners” received significant
negative comment from the business community. Despite this opposition coming through clearly in the final subsection on the topic of “Focusing Government Resources”, three sectors are identified for particular attention in the implementation of the GIF: biotechnology; information and communication technologies (ICTs), and creative industries. Hodgson indicates that the Government knew that in terms of industry support, this policy would be perceived as problematic:

“We knew that by picking sectors we were pushing the political economy and we were pissing a few people off. The three sectors we picked thought that was fantastic, and the rest, of course, went away in a huff. So that was what happens when you push the political economy. Michael Cullen was of the view that if we went for sectors it would end up attracting all of the attention. Look how right he is, here you are ten years later wanting to know about sectors, because we had the temerity to pick this, not that. So it was a politically difficult time.”

In order to appease the criticisms, the Government was quick to reassure business that the sectors were chosen because of their ability to feed into the success of other industries. On the eve of the release of the GAINZ document Hodgson was reported as making the argument that the economy is interconnected: “We could have chosen niche manufacturing, which includes the marine industry, but guess what niche manufacturing needs?... It needs greater input by ICT - CAD/CAM [computer-aided design and manufacturing] and all of that. And it needs to be better informed by design - the creative industries.”

Although the Government itself didn’t use this terminology directly, the three sectors can be considered general purpose technologies (GPTs): that is, they are

44 GAINZ, p 49.
45 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
highly pervasive, permeating the economy to such an extent that they can potentially transform the social and economic fabric. Because they have “horizontal impact” (that is, they link clearly to many other parts of the economy), their impact on economic growth will be compounded throughout the economy.\footnote{Ibid., p 51.} The increasing pressures of globalisation mean that businesses have to compete in international markets as the safeguard of state boundaries is eroded, and it follows that to achieve long-term growth, governments must “create an environment that drives the production of globally competitive products and services.”\footnote{Boston Consulting Group, 2001, \textit{Building the Future: Using Foreign Direct Investment to Help Fuel New Zealand’s Economic Prosperity}, Auckland, New Zealand, p 53.} Given that a substantial resource base is needed, innovation theory suggests nations need targeted government support.

In the economic literature on growth theory, it is suggested that some GPTs can have an uneven effect on the growth rate over time. However, within GAINZ and in the relevant Treasury references, this possibility is not mentioned. GPTs are simply considered to be “enabling”, or likely to stimulate economic growth in a way that may be uneven through the economy, but nonetheless is pervasive and significant. Importantly, GAINZ suggests that the criteria for choosing these sectors included not only this growth potential, but also that they were areas in which New Zealand (it was thought) had a competitive advantage, and they were able to “contribute to the vision of a global, innovative New Zealand economy and be consistent with the New Zealand brand.”\footnote{GAINZ, p 51} Hodgson agrees with this interpretation of the role of the sectors:

Our analysis was “do they have horizontal and vertical potential?” The vertical one is can you build a film industry or is there going to be a design consultancy industry come out of it. The horizontal one is, boy, wouldn't it be good if we had a whole lot more design in the way we
did our manufacturing product design. Actually design doesn’t stop there, its process design, business model design - design is quite a big word so let’s get excited about it across the economy.\textsuperscript{50}

Later in the interview, he made the comment “The horizontal stuff was a prerequisite, and the vertical stuff was what everyone got excited about.”\textsuperscript{51} This observation is backed up by commentary from a policy advisor then working at the Tertiary Education Commission on the engagement of the sectors. In an interview with the author, when asked about whether the term GPTs had any relevance they replied:

I think that was the way that at TEC we were interpreting that. So it could be that, you know biotechnology to improve production in primary industries, biotechnology has medical applications. I think some people think of ICT as you’re going to set up a new software company, as opposed to you’re going to have better ways of helping district health boards manage patient records and all that sort of stuff... People tended to focus a bit as though we are going to pick these sectors, and they’re going to grow... but biotechnology hasn’t. ICT will probably do so anyway.\textsuperscript{52}

The question of how the Government implemented the targeted assistance is of pivotal importance in understanding the economic underpinnings of the focus on the sectors.

Four sector taskforces were established to monitor the identified sectors, and they produced reports outlining strategies for growth in their respective sectors in 2003. In the 2003 Budget, the Government allocated funds over the next four years to implement policies initiated in response to the Taskforce reports. A useful summary of the policies implemented as a result of the Taskforces’

\textsuperscript{50} Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
\textsuperscript{51} Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
\textsuperscript{52} Interview with former senior policy advisor at the Tertiary Education Commission and the author, recorded and transcribed with Option B consent (unidentified as source), date and location undisclosed.
recommendations can be found in the Ministry of Economic Development’s Progress Report of June 2005. This summary is given in Table 5.6:
### Table 5.5  Summary of GIF Sector Taskforce Policy Initiatives to June 2005\(^{53}\)

<table>
<thead>
<tr>
<th>Policy Initiative</th>
<th>Nature of Policy Intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Biotechnology</strong>(^{54})</td>
<td></td>
</tr>
<tr>
<td>Establishment of the industry body NZ Bio</td>
<td>Infrastructural, providing for coordination</td>
</tr>
<tr>
<td>NZ inclusion in Australian-New Zealand Biotechnology Alliance</td>
<td>Infrastructural, recognises importance of international alignment</td>
</tr>
<tr>
<td>IP development and management manual for life sciences</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Framework for measuring growth of the sector</td>
<td>Monitoring/review</td>
</tr>
<tr>
<td>New private capital investment via the Venture Investment Fund</td>
<td>Addressing equity market failure, but not sector specific.</td>
</tr>
<tr>
<td>Removal of tax barriers to access international venture capital</td>
<td>Infrastructural reform to remove barriers</td>
</tr>
<tr>
<td>Tax legislation to improve treatment of special partnerships</td>
<td>Infrastructural reform to address sector needs</td>
</tr>
<tr>
<td>Improved operation of HSNO Act</td>
<td>Regulatory</td>
</tr>
<tr>
<td>Support for expanded funding instruments to meet needs of biotechnology sector</td>
<td>Infrastructural reform to facilitate funding</td>
</tr>
<tr>
<td><strong>Information and communication technologies (ICTs)</strong>(^{55})</td>
<td></td>
</tr>
<tr>
<td>Establishment of Hi-Growth</td>
<td>Infrastructure to facilitate coordination of sector</td>
</tr>
<tr>
<td>Establishment of ICT New Zealand organisation</td>
<td>Infrastructure to facilitate coordination of sector</td>
</tr>
<tr>
<td>NZTE Beachhead programme</td>
<td>Support for new entrant companies in overseas markets</td>
</tr>
<tr>
<td>Industry consortium formed — ICTX</td>
<td>Infrastructure to facilitate coordination of sector and government</td>
</tr>
<tr>
<td>Industry grouping - O2NZ</td>
<td>Infrastructure to facilitate coordination of sector</td>
</tr>
<tr>
<td>Leadership/executive development programme — 321 Go Global</td>
<td>Address specific skill deficiency in leadership</td>
</tr>
<tr>
<td>Facilitation of links between sector and education system</td>
<td>Address skill deficiencies, improve coordination</td>
</tr>
<tr>
<td>Coordination with immigration</td>
<td>Improving infrastructure to address skill deficiencies in labour market</td>
</tr>
<tr>
<td>“Futureintech” career awareness programme</td>
<td>Infrastructure to address skill deficiencies in labour market</td>
</tr>
<tr>
<td>Regulatory and infrastructural reform listed elsewhere</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Improve government ICT procurement processes</td>
<td>Infrastructural, regulatory</td>
</tr>
<tr>
<td>Statistical surveys developed for ICT industry</td>
<td>Monitoring / review</td>
</tr>
</tbody>
</table>

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\(^{54}\) Ibid., p 8.

\(^{55}\) Ibid., pp 16-8.
**Screen production**

<table>
<thead>
<tr>
<th>Policy Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of the New Zealand Screen Council</td>
<td>Policy advice, monitoring, advocacy – facilitative and enabling</td>
</tr>
<tr>
<td>Alignment of government funding bodies for industry</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Sector engagement via the Creative Industries Working Group</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Development of Screen Statistics survey (to measure its effect on the economy)</td>
<td>Monitoring / review</td>
</tr>
<tr>
<td>Large Budget Screen Production Grant (LBSPG)</td>
<td>Addressing market failure</td>
</tr>
<tr>
<td>Infrastructure reform (e.g. tax) to encourage private investment</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Major Regional Initiatives (soundstages in Wellington and Auckland)</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Review of overlap between Investment NZ and Film NZ re screen activities</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Screen Council established Education and Training Working Group</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
</tbody>
</table>

**Design**

<table>
<thead>
<tr>
<th>Policy Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better by Design programme and website</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Better by Design Conference (March 2005)</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Release of Design Resource Directory</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Develop education initiatives (e.g. professional development for design educators)</td>
<td>Address market failure</td>
</tr>
<tr>
<td>Design audit/mentoring programme</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Design funding</td>
<td>Not yet in place, but idea is to subsidise business to fund initial original design work</td>
</tr>
<tr>
<td>Create an international design cluster to help win international contracts</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Greater business component in design education</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Advocating professional accreditation of tertiary design qualifications</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Industry internships for new designers/students</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
<tr>
<td>Development of design management courses for senior managers</td>
<td>Infrastructural, facilitative, enabling</td>
</tr>
</tbody>
</table>

Overall, the tendency of the policy initiatives actioned or proposed by the sector taskforces are informed by the principles of reducing infrastructural barriers to the sectors, and are predominantly focused on the supply side. According to Cabinet:

High-level sector engagement should not normally result in any substantial shift in resource allocations to favour specific sectors. As a

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56 Ibid., pp 11-2.
general principle, interventions that aim to improve the implementation of existing policies and programmes, or improve the quality of regulation, should be favoured over interventions involving sector-specific direct assistance. Exceptions should only be made where there are compelling and overriding reasons, such as identifiable [sic] market failure or spillover that is specific to a particular sector.\textsuperscript{57}

This statement clearly refutes the possible interpretation of the strategy of sector targeting as a series of micro-level interventions applied in an ad-hoc and situation-dependent manner, and is further demonstrated by the relatively low level of funding directed towards these sector initiatives, as summarised in Table 5.7:

\textsuperscript{57} Framework for Sector Engagement, Cabinet Paper, Office for the Minister for Economic Development.
Table 5.6  GIF Contingency Budget Summary Appropriation ($m)$^{58}$

<table>
<thead>
<tr>
<th></th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08 &amp; Outyears</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contingency Agreed in 2003 Budget Package</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15.000</td>
<td>30.000</td>
<td>30.000</td>
<td>35.000</td>
<td>35.000</td>
</tr>
<tr>
<td><strong>Less: Allocated to Specific Policy Initiatives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biotechnology</td>
<td>1.926</td>
<td>3.953</td>
<td>3.860</td>
<td>5.860</td>
<td>5.860</td>
</tr>
<tr>
<td>Screen Production</td>
<td>0.864</td>
<td>0.867</td>
<td>0.325</td>
<td>0.325</td>
<td>0.325</td>
</tr>
<tr>
<td>Design</td>
<td>3.200</td>
<td>3.300</td>
<td>3.750</td>
<td>2.250</td>
<td>2.200</td>
</tr>
<tr>
<td>ICT</td>
<td>2.184</td>
<td>4.108</td>
<td>2.973</td>
<td>2.873</td>
<td>2.873</td>
</tr>
<tr>
<td><strong>Total Allocated or Identified</strong></td>
<td>14.967</td>
<td>22.264</td>
<td>22.424</td>
<td>26.174</td>
<td>13.374</td>
</tr>
<tr>
<td><strong>Other Initiatives Identified</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax and other initiatives, including Horizontal Enabling Initiatives</td>
<td></td>
<td>7.500</td>
<td>7.500</td>
<td>8.750</td>
<td>8.750</td>
</tr>
<tr>
<td><strong>Total Allocated or Identified</strong></td>
<td>14.967</td>
<td>29.764</td>
<td>29.924</td>
<td>34.924</td>
<td>22.124</td>
</tr>
<tr>
<td>Unallocated</td>
<td></td>
<td>0.033</td>
<td>0.236</td>
<td>0.076</td>
<td>0.076</td>
</tr>
</tbody>
</table>

The main effect of focusing government resources in this way appears to be the clarification of the legislation and institutional framework in which the sectors operate, and the adjustment of the regulatory environment. A possible exception could be granting of tax breaks to those investing in the sectors, allowing further appropriation of profits to capital, but these are of small scale and are relatively insignificant. The most important point about the selection of these four sectors is that the scope of this targeting is very small in the context of the entire GIF, particularly as it includes the broader policy prescriptions contained in the first

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“Strengthening the Foundations”. Hodgson points out that the role of the sectors should not be overplayed in terms of their scope relative to the GIF:

Well, I was the one who did that [picked the sectors]. Well, along with lots of others. But I was the one that carried the can for it. I’d say a couple of things. The first is that it wasn’t in my mind, in our minds, the most important part of the GIF. We were much more interested in what we were calling global connectedness, and other jargon that we invented round that aspect of it. We were much more interested in skills development, retention and recruitment. The role of immigration, we knew that the fight was around people. Soon after that we for example made every doctorate, every PhD done in New Zealand, was done at domestic rates, irrespective of who did it, so that was part of that thinking.\textsuperscript{59}

This is backed up by the fact that the policy interventions in each sector were very much about general supply-side encouragement and support rather than direct invention and subsidies. There was no real need for business to be concerned that the sectors were going to be disproportionately favoured in any substantial way. This reflects both the Government’s commitment to a neoliberal approach to supporting business and the political climate. According to the former TEC policy advisor:

You get the impression that if you look at how much money was spent a lot of it would have been spent on consultants and well meaning talk fests as opposed to stuff that actually went back into business to really do quite a bit more. The businesses in these sectors are aligned but these sectors are more competitive. It kind of goes into the machinery that goes around that, and maybe that comes back to the government not wanting to pick winners. They do kind of pick winners, but then when it comes to policy people get too afraid to put money into an individual company, so they spent it on people to provide them with advice, and then different companies with advice, rather than putting it directly into a company.\textsuperscript{60}

\textsuperscript{59} Hodgson, P., \textit{Interview with author (recorded and transcribed)}, 2 August 2010.

\textsuperscript{60} Interview with former senior policy advisor at the Tertiary Education Commission and the
However, at the same time, the same advisor also mentioned that at least in the biotechnology sector, the firms that benefitted from the policies were not necessarily those who were struggling:

One of the things that we struck with the bio [biotechnology] stuff is that it’s service industry rich, so you go to NZ Bio things and it’s mainly IP lawyers as opposed to actual poor companies.61

This backs up the suspicion held by the author that it is more likely for larger companies to already be engaging in innovative activities and therefore be more receptive to and benefit from GIF policies.

5.2.2 Perceived Anti-Farming Sentiment

The other significant point to be made about fractured business class interests was that there was a perceived anti-farming sentiment, not just from the GIF but as a result of the historical implementation of neoliberal reforms that removed protectionist subsidies and tariffs from the agricultural sector, which resulted in a difficult transition period, but was thought by Federated Farmers to have paid off by 2002:

Many farmers felt increased pressure. However, the rapid transition to a market economy proved less daunting than expected. Early predictions of huge numbers of farmers walking off their land did not occur. Official predictions were that 8,000 farms would fail. In the end, only about 800 farms, or 1% of the total number, faced forced sales. Fifteen years after subsidies were abolished, farmland values have more than recovered as farm profitability has been restored... land values have returned to the levels seen during the early 1980’s.62

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61 Ibid.
Although this was happening across the whole economy, agriculture was one of the most heavily protected industries and traditionally had been and still is a substantial component of New Zealand’s economy, and is the primary export source: in 2012, primary products accounted for seventy percent of exports from New Zealand, with milk powder, butter, and cheese, accounting for 25 percent of goods exported in value terms. Given their significance to the New Zealand economy, it is somewhat understandable that despite acknowledgement that deregulation and removal of government intervention had been beneficial in the long run for agricultural productivity and competitiveness, there was media commentary that the GIF didn’t directly address the sector and therefore appeared to be anti-farming.

However, Federated Farmers, the only organisation lobbying on behalf of farmers as a group, argued strongly against intervention as we saw in their submission to the SIAC. In addition to his role as Minister for Economic Development, Jim Anderton also held the Agriculture portfolio from 2005 and observed to the author that the sector was economically successful precisely because of the innovativeness and business acumen present in the sector:

In terms of individual industries the agricultural sector was one of the success stories. People don’t comprehend sometimes how important agriculture and horticulture is to New Zealand. Because it’s got a kind of blunt instrument image: that is, hayseed farmers, ploughing through the muck, milking cows, freezing works and all the rest of it. And it’s sort of back-breaking labour in horticulture, planting crops and all the rest of it. It all seems a pretty basic, primitive sort of business. The truth is almost exactly the opposite. Part of it is very hard grinding work: there is no doubt about that, farmers work hard. But, underpinning it, there is a whole range of very sophisticated scientific research

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63 See Statistics New Zealand, 2013, Snapshots of New Zealand in Profile: Exports, accessed on 27 June 2013 at:
development programmes, investment and high technology, and the skills that go with it... The success stories of Zespri, of Fonterra, the development in terms of productivity. The agricultural industry is about two and a half times more productive than all other industries put together in New Zealand. And that’s a tribute to the levels of scientific research and development and investment: it’s not just that they work hard, they’re smarter.\(^6^4\)

Despite not being a chosen sector for the GIF, organisations like Zespri (a company formed on behalf of kiwifruit growers to coordinate access to the global kiwifruit market) and Fonterra (a cooperative of New Zealand dairy farmers designed for the same purpose) fit well with the GIF vision of global connectedness and a record of sophisticated innovation.\(^6^5\) In addition, biotechnology and ICT have the potential for horizontal impact on agriculture in the sense described in the previous section. While much was made in the media about the lack of attention to agriculture, certainly at the larger scale end it was not reported as a major problem.

**Conclusion**

This chapter has examined the intellectual and political underpinnings of the GIF policies specifically related to innovation. The first three strategies listed in the GIF designed to build effective innovation are designed to help coordinate and commercialise innovation, develop an appropriately skilled labour force to support innovation and to integrate New Zealand companies into the global economy. The moderate increases in research funding and the advancement of an environment more conducive to growth are directed at innovating businesses, rather than at innovating individuals. Likewise, efforts to develop skills and talent are largely aimed at meeting the needs of the supply-side of the labour market: filling needs identified by employers, rather than lifting the life chances of the individual.

\(^6^4\) Anderton, J., *Interview with author (recorded and transcribed)*, 20 October 2010.
\(^6^5\) See their websites for more information (www.zespri.com and www.fonterra.com).
worker, and it is noteworthy that no mention is made of lifting wages in this section of the GIF. Increasingly global connectedness is concerned with attracting foreign direct investment and encouraging New Zealand companies with export potential.

There is room for potential conflict amongst business interests in terms of the notion of inter-industry or inter-company rivalry over support to some sectors of the economy over others. Section 5.2 examined two areas of policy where class interests could be said to have the potential to become fractured: the fourth strategy of “Focusing Government Resources” and the perception of anti-farming sentiment in the GIF. In reality, while there was some minor disagreement, the sector focus and general approach of the Government against industry or company favouritism saw the business community in basic agreement about their commentary on the GIF approach to economic development. These policies represent the Fifth Labour Government’s commitment to supporting businesses, both established and establishing, but do not really advance the needs of workers or other sectors of society. It is worth reinforcing the point that these policies are aimed and promoted directly at business, and as such appear unrelated to the needs of workers and are subsequently normalised as what governments must do to support the economy. For this reason they attracted little commentary from the general public. Chapter Six will now address the wider economic and social foundations of the document, which is more controversial along class lines.
Chapter Six:

Class-Based Interest Groups and their Expression of an Economic and Social Vision for New Zealand 1999 to 2006

Introduction

As foreshadowed in the Introduction and in Chapter Five, the Growth and Innovation Framework (GIF) document has two sections listing policy initiatives: “Building Effective Innovation” and “Strengthening the Foundations”. Chapter Five examined the intellectual and political underpinnings of the former and this chapter discusses “Strengthening the Foundations” which addresses broader policy areas that can impact both growth and distribution. The chapter argues that the neoliberal agenda of the Fourth Labour Government was modified in ways it was hoped would generate a variant of neoliberalism more acceptable to the electorate. Divided into
three parts, the first section considers why these wider issues were left off the SIAC consultation agenda: it details trade union efforts to lobby government with respect to these policy issues and the commentary advanced as part of the one day Wider Representative Workshop; and then discusses each of the policy areas addressed in “Strengthening the Foundations” in detail in order to clarify the nature of the new variant of neoliberalism favoured by Labour Party strategists.

Importantly, these broader macro and microeconomic issues are seen as providing the context for the smaller scale innovation related policies. Even welfare policy can be linked to innovation from a free market theoretical perspective. As Bedggood describes it, this perspective:

holds that state provision of welfare services is a drain on private savings, and therefore acts as a disincentive to innovation and hence economic growth. The more familiar argument operates at the level of the firm where entrepreneurs’ savings are taxed. However, in Hayek’s language, all individuals are entrepreneurs including those who sell their labour on the market. Hence the latest attack on welfare rights is dressed up ideologically as a defence of the rights of individuals to become independent of the state and self-reliant in finding work on the labour market.¹

While Bedggood was writing about the Fourth National Government’s welfare policies and a Beyond Dependency Conference held in April 1997, the link between social and economic policy is certainly made by including reference to social policy in the GIF, and this link was endorsed by leading Labour Party ministers interviewed for the purpose of this thesis. There are specific sections relating to social, health and environmental policy in “Strengthening the Foundations”, which will be examined in section 6.2. with the macro and microeconomic policy framework. Finally, three

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important areas of social policy that do not appear in the GIF that have redistributive potential are considered in section 6.3. The first two are the increase in the top marginal tax rate imposed during the Fifth Labour Government’s first term and periodic increases to the minimum wage, both of which were criticised by business interests, and a third area — the Working for Families package — which elicited less criticism from business.

6.1 Entrenching Neoliberalism: Business Associations, Unions and the Wider Community

Business organisations, trade unions, and other interest groups have different capacities to influence the state. The authority that capital holds over the productive base provides business with substantial leverage and this process can be much enhanced when the business community is able to cohere. While realising this unity is often difficult for business it is generally less problematic than is the case with labour and the wider community:

In particular, the problem of creating and maintaining unity among members and of mobilising members’ resources is considerably less serious for business associations than for unions, because the former are to a greater extent interest specific. These differences mean that to achieve an equal amount of accuracy in awareness of respective interests and influence over the formation of state policy, ‘vastly different efforts are required on both sides of the major dividing line of social class’.  

Policies lobbied for by both the NZBR and Business New Zealand include endorsement of the neoliberal macroeconomic framework (including the industrial relations legislation), and policies that can assist business directly by providing stable

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prices, lower compliance costs and labour market flexibility. What is less immediately obvious is that social policy also attracts attention from business, including but not limited to the funding regimes for health and the environment. The NZBR regularly published their speeches and submissions on these issues and the efficiency of the market reigns in these documents, with consumer sovereignty a strong theme: it being asserted that individuals and not the state know best how to utilise their resources.

In contrast, trade unions seldom publish general statements that indicate a broad commitment to a vision that extends beyond the workplace. For example, the NZCTU’s 2000 statement on economic policy is limited to declaring “its support for a more equitable distribution of the wealth and resources of the country and... policies which... provide for the public interest in the management of our resources.” The general nature of this statement reflects the power workers derive from their numerical advantage in terms of membership. However, this can be a hindrance to collective unity: when it comes to wider political issues it can be difficult for unions to act as a political force when it comes to lobbying government. This is reflected in the range of policy issues they support: unions are clearly united in pursuing improved living standards through general improvements in working conditions including wage negotiations, supporting the rights of workers in the workplace, promoting collective bargaining, favourable industrial relations legislation, protection of local jobs and the pursuit of full employment. Precisely because these are relatively uncontroversial points among union members, they receive detailed attention from union leaders.

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4 One industry specific example can be found in the published election guides for members of the Association of University Staff: in both 1999 and 2006, AUS published guides to the major parties’ policies in the lead up to the general election. In 1999, the guide contained a summary of responses to questions put to each party’s nominated tertiary education spokesperson about the challenges
While broader policies such as social spending, progressive taxation, immigration, and reducing inequality are occasionally commented on by unions, the consensus surrounding these issues is less coherent than it is among business associations. This is not because workers are not interested in or informed about broader economic issues: rather, the issues are framed around what workers have in common. In a presentation to employers in October 2000, Andrew Little, then National Secretary to the Engineering, Printing, and Manufacturer’s Union (EPMU), framed the response of workers in terms of economic living conditions. While he argued that workers understood the implications of rising inflation for interest rates and unemployment, he argued that they shouldn’t take the full load of rising prices. Social spending fits into this picture:

Our members are already telling us that they want future wage increases to compensate them for the increasing cost of fuel and higher interest rates, as well as other components of price inflation. Low-income and middle-income households have long been under pressure to maintain living standards in the face of extra costs in education, health and so on, and have had little relief over the past decade.5

In addition to the pressures of increased living costs on real wages in consumption terms and thereby linked directly to wage negotiations, when union officials do make statements on social policy issues, a direct link to employment issues is usually made, which is not as readily apparent in the material from business associations. For

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example, the NZCTU argues that cracking down on benefit recipients and requiring them to work undermines wages and unemployment rather than solving the economic and social problem.\(^6\) They go so far as to argue that “people are entitled to good support and benefit levels when they need to access the social security system”, but usually stop short of prescribing exactly what constitutes a good benefit level.\(^7\) Unions argue that there is a role for the government to create jobs: while protectionist values are less common, they do still appear.\(^8\) Like other unions, the protection of jobs in times of layoffs is a key priority.\(^9\) Trade unions have some ability to influence policy, but their lobbying is more likely to be reactive to current policy debates, rather than a strategic and reflective campaign, such as can be afforded by some business interests.

The views of the wider community are even more difficult to collate but for the purposes of this thesis I draw on the *Wider Representation Report* produced as part of the SIAC process: the report on the one day workshop held at Victoria University of Wellington that aimed to include representation of the community and voluntary sectors, young children and older people, Maori and Pacific communities and migrants. This document provides insight into participants’ views on attitudes towards business, the role of government and social issues generally in addition to innovation policies. Many comments reflect the generalised concern that business will receive attention at the expense of other sectors of society, because the Government


\(^7\) Ibid.

\(^8\) See for example, the EMPU has been known to call for boycotts of products produced outside New Zealand. Engineering, Printing and Manufacturing Union, 2000, “Let’s Make these Barbeques Black: Manufacturer’s [sic] move to Asia Cost Kiwi Workers Jobs”, *EPMU News*, November 2000, p 1.

appeared to be focusing on the capacity of business to deliver clearly observable outcomes in terms of increased output, profitability, and competitive edge, and therefore increased wealth in the form of GDP. Specifically with respect to Challenge One, “Reward ‘can-do’, risk-taking, and success”, it was felt by participants that the rewards “need broader definition for all sectors to participate.” Moreover, participants felt that the attitudinal change required of business should be more broadly applied to other sectors in the community. With respect to Challenge Four (“generate wealth from ideas and knowledge”), there was considered to be a “risk of only seeing ideas as possible commercial products or expecting a linear line from idea to product to wealth. It is much more holistic. We need to support ideas and innovation in their own right — who knows where they might lead.”

With respect to comments on reducing social inequality and inequities, there is basic recognition that the Proposed Innovation Framework (PIF) will not automatically deliver the best outcomes for every New Zealander, and could reinforce already existing structural inequalities. For example, a participant in the Wider Representation Workshop claimed that “If proceeding [with the PIF] only works for some groups in the community, then the same groups who currently miss out will be even more multiply-disadvantaged.” A primary focus here is on the digital divide, and on overcoming this divide to ensure full participation in the knowledge economy:

10 For example, the challenges in the PIF are “generally focused on business and wealth [discussion on wealth in its broader sense is needed]”. See the Science and Innovation Advisory Council, 2001, *Wider Representation Report*, p 16.
11 Ibid.
12 Ibid., p 18.
13 The participants were commenting on the Proposed Innovation Framework rather than final Growth and Innovation Framework as this was during the consultation process, before the GIF was released.
The vision offers amazing opportunities to the country to lift our wealth, quality of life and overcome many social inequities. Unfortunately, the emphasis has been narrowly focused on wealth. That, of course, is vitally important, but the vision will not be achieved until the knowledge divide problems are central to the strategy... A lot of work has to be done to ensure all can access the knowledge society. Current data shows the same groups who have missed out in the last 15 years of reform are missing out on this new wave.\(^\text{15}\)

The idea that through successful engagement with the knowledge economy, sufficient wealth will be generated to lift the overall quality of life is accepted in a largely uncritical way. However, the suggestion that this process will “overcome many social inequities” is more controversial, and according to this participant, requires a deliberate and conscious effort, principally through elimination of the knowledge divide. One participant in the Workshop commented in reply to the last statement: “But we must empower people so that they can become responsible for their own fate and not rely on ‘someone’ ‘giving’ them a job”,\(^\text{16}\) reflecting an individualistic conception of self-responsibility and indicating the extent to which a neoliberal outlook has permeated the wider community.

Perhaps the most revealing comment with respect to one of the key themes of this thesis (that is, who benefitted from the GIF) is the following:

The previous social and economic restructuring in the late 80s and 90s marginalised at least 20% of the population. Current data suggests many of these same people are lagging behind in the new technologies and participation in the knowledge society. Access is the critical issue and it has to be central to any knowledge strategy to the country or the vision will be undermined by a lack of political mandate and growing inequalities. A good knowledge strategy has the potential to overcome previous inequities and build social cohesion in New Zealand, but this focus must be central to

\(^{15}\) Ibid., p 10.

\(^{16}\) Ibid., p 10.
the national strategy. Creating access in poorer neighbourhoods, disadvantaged groups, etc and mentoring skills and catch up is vitally important. This requires resources, strategy and monitored evaluation.\textsuperscript{17}

Interestingly, raising the issue of social inequality generated a reactive response from another participant: “Are you asking too much of a framework built on fostering innovation — your comments seem more directed at a ‘social equity strategy’ or the like?”\textsuperscript{18} This exchange is salient to this thesis in that the GIF promises to raise the living standards of all New Zealanders, and the first participant is simply stating a way that the GIF could achieve its self-professed outcome. Consensus existed that we need to embrace the idea of wealth generation, particularly as it is essential to the provision of a welfare state.\textsuperscript{19} However, there was also a perception that egalitarian ideals have too strong a hold. Two responses include:

More people need to be persuaded of this. Many are still stuck in the old idea of “sharing equally” of the old economic cake instead of trying to make the cake bigger.\textsuperscript{20}

That’s why some object to the word “wealth” — our old mindset.\textsuperscript{21}

These reflect more business oriented perspectives, echoing some of the sentiment that can be found in the submissions of the business associations. Some went so far as to define clear responsibilities for different interest groups:

There needs to be a shift in attitude. Generating wealth is not a negative — the rich against the poor. Wealth is a stimulator. If we want all the services we need to be a healthy economy. Unions need to work in a cooperative

\textsuperscript{17} Ibid., p 7.
\textsuperscript{18} Ibid., p 7.
\textsuperscript{19} For example, “You cannot have a welfare state without a vibrant economy.” Ibid., p 11.
\textsuperscript{20} Ibid., p 12.
\textsuperscript{21} Ibid.
manner... business has to generate a surplus to enable investment into the future opportunities.²²

In most cases, economic success was seen as the first priority, because then it would be possible to share the resulting wealth around, but the comments did not directly address the question of how the wealth would be redistributed, possibly revealing a hidden assumption that wealth might automatically “trickle down”, ultimately benefiting the majority. In some respects, focusing on reducing social inequalities was seen as a threat to economic success, again reflecting more pro-business ideals:

Generating wealth, seeking opportunities are the ways forward. Too many are thinking of the old ideals of the limited and restrictive sense of equality, so that everyone becomes equally poor.²³

Implicit in the discussion was an acceptance that the generation of wealth and sharing it more equally go hand in hand, even though there was disagreement about whether the government should actively redistribute wealth. There was reference to poverty, but not to reducing absolute or relative poverty by redistributing household incomes, for example, by increasing transfer payments and wage rates. This could be because the participants see the solution to poverty as automatic once wealth has been generated (via trickle-down assumptions), or it could reflect the limitations of the Wider Representation Report: perhaps the discussion didn’t address solutions to poverty, or if it did, it wasn’t included in the Report.

### 6.2 Entrenched Neoliberalism in the “Foundations” of the GIF

The section entitled “Strengthening the Foundations” in the GIF document addressed the following issues each of which is discussed in turn: “A Stable

²² Ibid., pp 14–5.
²³ Ibid., p 12.

6.2.1 “A Stable Macroeconomic Framework”

The subsection of GAINZ entitled “A Stable Macroeconomic Framework” confirms that the Fifth Labour Government retained the monetarist agenda legislated in the Reserve Bank Act 1989 in conjunction with the Policy Targets Agreement (PTA), which ensures price stability by minimising inflation and prevents the government from having direct control over monetary policy but also reveals that there was an ‘easing’ of monetary policy. The Finance Minister, Dr Michael Cullen said in a speech to the Canterbury Employers’ Chamber of Commerce in July 2000: “This is by no means a lurch to the left… We are engaged in moderate rebalancing of policy…”24 It should be noted that the terms of the PTA were modified by the Government in September 2002, with the target inflation rate being adjusted upwards slightly from 0 to 3 percent, to 1 to 3 percent. According to the Governor of the Reserve Bank at the time:

This PTA acknowledges the way monetary policy has and will evolve. As inflation expectations have become steadily better anchored, so monetary policy has become more flexible, and this trend will continue, as signaled in this PTA.

Price stability is the Reserve Bank’s ‘primary function’, but we also seek to avoid ‘unnecessary instability in output, interest rates and the exchange rate.’ The shift to an inflation target ‘on average over the medium term’ allows us to better achieve this. This helps economic growth, which, we all agree, New Zealand needs, by enhancing predictability and confidence and, by that, savings and productive investment. The raising of the bottom

of the band brings the overall target more in line with New Zealand’s inflation outcomes in recent years and those in other countries.\textsuperscript{25}

Coupled with the Fiscal Responsibility Act 1994 and the Public Finance Act 1989, this Agreement limited the capacity of the government to deviate significantly from the neoliberal agenda (by, for example, recommitting itself to full employment or engaging in high levels of public spending).

Chris Trotter, a political commentator on the left, anticipated this move, and described the extent to which it met the interests of, and was influenced by, business:

What Labour might do... is modify the Reserve Bank’s Policy Targets Agreement with the Government. It will be guided in this matter by the advice of those business leaders who have chosen to align themselves with the general thrust of Labour’s policies. Already there are strong indications that within this group a consensus is emerging which characterises the present PTA as just a little too restrictive, and that if the goals set at the Catching the Knowledge Wave conference last August are to be met, then the next Reserve Bank Governor will have to demonstrate a tad more flexibility than the last.\textsuperscript{26}

The general argument in this article is that business has structural influence over the government, even going as far as to say that the business community has “an effective power of veto” over major areas of public policy but the fact that the government eased monetary policy suggests this may constitute an overstatement.\textsuperscript{27}


\textsuperscript{27} Ibid., pp 28–29.
Entrenchment of fiscal responsibility listed in the GIF legally constrains a government’s capacity to adjust the configuration of spending, and public versus private ownership of the means of production. Proposals to significantly re-nationalise services or industry, or to substantially increase taxation would require widespread acceptance. Fiscal responsibility is a policy supported by the major business associations, which are opposed to what they describe as excessive government spending. For example, the New Zealand Manufacturers’ Federation stated: “New Zealand governments are still involved in activities which need not be part of their core business... Governments are inefficient in the way they deliver services, particularly those where they have a monopoly.”

Ideologically, this fiscal restraint also allows the government of the day to attest, logically and responsibly, to financial reasons for not helping particular sectors of society.

Along with fiscal and monetary policy the GAINZ understanding of constituted “A Stable Macroeconomic Framework” makes it clear that this framework necessarily includes industrial relations contingencies:

The government has retained the fundamental macroeconomic legislative framework, such as the Reserve Bank and Public Finance Acts, and has implemented new workplace legislation which continues to allow flexibility in employment relationships while ensuring a fair balance between the rights of workers and those of employers.

Of all the policies in “Strengthening the Foundations”, the repeal of the Employment Contracts Act (ECA) with the Employment Relations Act 2000 (ERA) received the most cohesive endorsement from the union movement, although the extent to which

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29 GAINZ, p 27.
the employment relationship is described as inherently conflicted varies by union. The ERA was described by the Government as “new workplace legislation which continues to allow flexibility in employment relationships while ensuring a fair balance between the rights of workers and those of employers”\(^\text{30}\), is an acknowledgement from the state that the ERA arbitrates along class lines. The Public Services Association (PSA) by contrast prefers to speak of a partnership:

> The PSA is committed to Partnership for Quality. Union members and employers working together around their shared interests to achieve quality services and quality jobs. It is not about who wins and who loses, but about identifying where the common interests lie and where gains can be made for everyone.\(^\text{31}\)

However, while unions greeted the ERA with celebration when it passed\(^\text{32}\), they were pessimistic: in the lead-up to the 1999 election the *New Zealand Political Review* ran an article pointing out that most unionists were describing the bill as a “disappointingly conservative piece of worker’s legislation.”\(^\text{33}\)

> The legislation itself did little to fundamentally alter the industrial relations environment in New Zealand. While it is important to concede the few changes that were made that favoured workers, the ERA retains core elements of the ECA. Secondly, due to the structurally defined close relationship between business interests and the Government, it is not surprising that employers managed to alter aspects of

\(^{30}\) *GAINZ*, p 27.  
\(^{32}\) See for example the photo spread in the October 2000 issue of the EMPU News: photos of celebrations taken around the country on the 2\(^{nd}\) of October, the day the ERA came into effect. Union members eat cake, hold balloons and placards, and even enjoy a sausage sizzle in Dunedin to mark the occasion. Engineering, Printing and Manufacturing Union, 2000, “Happiness is the Day the ECA Died: Members Around the Country Celebrate as New Laws Bring in Fairness at Work”, *EPMU News*, October 2000, pp 4—5.  
the Bill before it got to the Select Committee stage. For example, the New Zealand Employer’s Federation (now part of Business New Zealand) claimed responsibility for successfully convincing policy makers to “remove as many of the worst features of the Employment Relations Bill as possible.”

Despite widespread business opposition, the threat posed by the ERA was exaggerated. It reinstated some rights for workers, recognising the “inherent inequality of bargaining power in employment relationships,” an assessment that employers deny. Anne Knowles, then Executive Director of Business New Zealand, argued for a more individualistic interpretation of bargaining power:

I should say that I don’t agree that there is always a power imbalance in favour of the employer. In areas where there are skill shortages — in computer-related fields for example — the employee clearly has more bargaining power than the employer. The employee can go down the road and find another IT job very easily — while the employer can find it difficult to find another skilled IT worker.

As a rule, the better qualified and higher skilled a person is, the more bargaining power they have. To me, that suggests that individual education and upskilling is how you best prepare yourself for a bargaining situation, rather than collective action.

34 New Zealand Employers Federation, 2000, “Federation Achieves Changes to the Employment Relations Bill”, in The Employer, April 2000, p 3. These changes included keeping transport as an essential industry (meaning that 14 days notice of a strike is necessary so that loss to business can be minimised); removing vital links between individual and collective contracts; explicitly rejecting the wealth of international case law available to determine what is meant by good faith bargaining and with respect to International Labour Organisation Conventions; avoiding problems of dependent contractors, so that employers can more easily escape responsibility for costs normally associated with employees; and reducing the period in which a personal grievance must be lodged from 12 months (preferred by the union movement) to 90 days.


The ERA also claims to promote collective bargaining and sets standards of behaving in “good faith”. However, it continues to safeguard labour market flexibility by retaining many of the ECA’s core features (for example, restrictions on the conditions in which strikes and lockouts can occur, and the right of employers to suspend workers on strike without pay). It remained acceptable for non-union members to free-ride on the negotiated outcomes of collective contracts (it is illegal for an individual employment contract to be inferior to a collective contract).

To the extent that the ERA did concede to workers’ interests, this was the result of a long and hard campaign rather than granted unopposed by employers and their representative associations. Employers’ concerns turned out to be unfounded, in the view of the NZCTU:

The Employment Relations Act has now been in force for almost a year and, although there have, and will continue to be, issues and teething problems, there has been nothing like the industrial relations catastrophe which some politicians and employer spokespeople predicted.

The ERA requirement to adhere to standards of “good faith” introduces to a very slight extent a qualitative moral judgment of behaviour into what previously was a relationship almost entirely defined in terms of commodified labour, with productivity and wage rates being the core elements in workplace negotiations, and with no meaningful reference to parties behaving ethically towards each other. This new element in the labour/capital relationship could be argued in a sense to soften the

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commodification of labour power that is defined legally in clear contractual terms, with previously less scope for a moral judgment to be made on how the transaction was conducted.

6.2.2 “An Open and Competitive Microeconomy”

The subsection “An Open, Competitive Micro-economy” aims to remove barriers to trade in both domestic and international markets. It identifies key areas where the Government made changes at a microeconomic level, intended to help clear markets and ensure the effective operation of the price mechanism. These changes fit into two general categories: those that aimed to increase competition and efficiency by minimising regulation and compliance costs, and those that encouraged international trade.

This microeconomic agenda draws heavily on neoclassical assumptions about the operation of markets. It could be argued that in some cases the Government was politically motivated to improve conditions for consumers, for example, by allowing increased competition in the telecommunications industry, which could have led to price decreases. Of course, the same positive impact would apply to production costs for businesses. In fact, Business New Zealand cautiously supported the Government’s intervention in the telecommunications industry:

2.1 One of the key Business New Zealand policy principles is efficient government and minimal intervention and compliance costs in the economy. Normally, we would have reservations about industry specific regulation on the grounds that the operations of a free market, backed up by the generic provisions contained in the Commerce Act 1986, ought to be sufficient.
2.2 However, we recognise that there are compelling arguments in favour of the provisions contained in the Bill. For example, it is widely acknowledged that there have been problems with the length, cost and clarity of dispute resolution through the court process that arguably slowed development of effective telecommunications competition in the 1990s. Therefore, although over-regulation usually has a perverse impact on incentives to invest and innovate, a light handed regulatory framework for the telecommunications industry appears to be justified.\footnote{Clark, N., 2001, \textit{Telecommunications Bill 2001: Submission by Business New Zealand}, 13\textsuperscript{th} June 2001, Wellington, New Zealand. Accessed 20\textsuperscript{th} November 2011 at: http://businessnz.org.nz/doc/185/44InfrastructureTelecommunications, p 3.}


The overwhelming concern in this subsection of the policy document (and in the relevant section of Treasury’s \textit{Briefing to the Incoming Government 2002}) is the perceived need to improve the environment in which businesses operate, and to increase the economy’s alignment to overseas markets:

Entrepreneurs require clear market signals so they can identify profitable opportunities. Market signals provide the information necessary for entrepreneurs to identify and take up profitable opportunities, and these signals should reflect underlying realities rather than regulatory distortions. In turn, this requires access to domestic and international markets, and prices that are not unduly distorted by taxation, inflation or subsidies.\footnote{Treasury, 2002, \textit{Briefing to the Incoming Government}, p 27.}
Neoliberalism prescribes exactly this kind of supply-side intervention at the micro level, following the rationale that sustained economic growth will follow if the conditions are right, one of which is that the market is exposed to the rigors of open competition. The pursuit of open and competitive market conditions reflects a generalised concern for the needs of capital, a preoccupation which would be expected from the state in a capitalist society.

This subsection is focused on what the Fifth Labour Government did to improve the environment in which businesses operate, and largely ignores the wider context of what this means for the rest of society. This perpetuates the notion that this policy has benefits for all, suggesting a unity of community interest. Production and consumption are linked, obfuscating the notion of divided interests in the organisation of production. Producers make rational decisions for the benefit of those in communities, as opposed to other interest groups. Dylan James, a policy analyst for the New Zealand Employers’ Federation, equates the interests of capital with those of the community while accusing others of voicing vested interests in an article commenting on the Government’s progress on the Resource Management Act:

Public participation certainly has its place, but the gatekeepers of development bear a great responsibility for the future of the nation. At present many of those who take it upon themselves to be the watchdogs of development through the public consultation process are anything but responsible. They do not take the wider interests of the community seriously and in fact are quite open about pursuing a specific agenda. This agenda is unashamedly anti-development and therefore anti-employment... New Zealand needs to be made a safe place for development capital if it is to achieve anything like the employment outcomes that are promised.44

While the downside of community engagement is not strongly emphasised in the GIF, this reasoning is an integral part of this subsection ultimately promoting a positive change for business in the regulatory environment.

6.2.3 “A Modern Cohesive Society”

The subsection “A Modern Cohesive Society” opens with a paragraph describing New Zealand as leading the world in welfare reform, the principles of which are “as relevant today as they ever were — security of income for those in need, the primacy of sustainable paid employment, access to high quality and affordable health care, and dignity for older New Zealanders through a guaranteed retirement income.”

Following the 1999 election, the Government did make small but significant changes to social policy. The GIF does contain an expression of the Government’s ideological connection between economic and social development:

Economic and social development go hand in hand. A growing economy is the best guarantee of social security, and encouraging sustainable employment is one of the best contributions that government can make. That is why the government has moved to refocus social welfare as an active and enabling force in people’s lives.

The GIF does not cover work and welfare aspects of social policy in great detail apart from reference to two policies related to incomes and living costs. Later in this chapter, three additional income-related policies that have redistributive potential are examined, which are not listed in the GIF but are consistent with the GIF approach. For now, the discussion is limited to analysing those policies listed in this GIF subsection, which can be grouped into three broad categories: those aimed at improving service delivery (at community and central government levels); those

45 GAINZ, p 28.
46 Ibid., p 28.
comprising an intervention of some description in the community (a subgroup of which is focused on access to ICTs); and those specifically directed at income levels or living costs. These categories are summarised in Table 6.1:

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<tr>
<th>Table 6.1</th>
<th>Summary of Policy Initiatives for “A Modern Cohesive Society”</th>
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<tbody>
<tr>
<td></td>
<td>GIF Reference</td>
</tr>
<tr>
<td><strong>Improving service delivery</strong></td>
<td></td>
</tr>
<tr>
<td>Community level</td>
<td>3.1</td>
</tr>
<tr>
<td></td>
<td>3.4</td>
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<tr>
<td></td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td>3.11</td>
</tr>
<tr>
<td>Central government level</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Community Interventions</strong></td>
<td></td>
</tr>
<tr>
<td>Non-ICT specific</td>
<td>3.5</td>
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<tr>
<td></td>
<td>3.8</td>
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<tr>
<td></td>
<td>3.9</td>
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<td></td>
<td>3.10</td>
</tr>
<tr>
<td>ICT specific</td>
<td>3.12</td>
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<tr>
<td></td>
<td>3.13</td>
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<tr>
<td></td>
<td>3.14</td>
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<tr>
<td></td>
<td>3.15</td>
</tr>
<tr>
<td><strong>Income and living costs</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.2</td>
</tr>
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<td></td>
<td>3.3</td>
</tr>
</tbody>
</table>

In the first category, policies designed to improve service delivery have remained focused on the delivery process itself, rather than the service being delivered. This reflects a new emphasis on an investment (as opposed to expenditure) approach to social policy, where “investment becomes a more strategic decision of ensuring
productive policy decisions with available public funds." So, rather than extra funding being given to social service organisations for operational costs, the emphasis has been on organisational change and collaboration, to both provide better access to services and deliver services more efficiently. For example, the establishment of Heartland Service Centres in rural and provincial areas (GIF reference 3.1 in Table 6.1) restored more direct access to government agencies than was possible in the late 1980s and 1990s as a result of the restructuring and rationalising of the public sector. As Steve Maharey, then Minister of Social Services and Employment acknowledged, closure of services in rural areas had a particularly strong impact on those on lower incomes.

Other policy initiatives in this category are similarly focused on building relationships between government agencies and social service organisations, both nationally and locally. For example, the GIF includes a government commitment to improving its relationship with community, voluntary, and iwi/Māori organisations (GIF reference 3.7 in Table 6.1). This commitment is articulated in the *Statement of Government Intentions for an Improved Community – Government Relationship*, which outlines an intention to improve government culture with respect to diverse values, and a “whole of government approach” (that is, a more coordinated and coherent approach to policy-making and implementation). Similar sentiments are echoed with respect to building sector relationships (GIF reference 3.4 in Table 6.1) and the

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49 *Statement of Government Intentions for an Improved Community – Government Relationship*, December 2001. Interestingly, the document also commits the Government to “undertake a programme of work to address concerns about funding arrangements, effectiveness, compliance costs and related matters”. Any increase in funding is not directly referred to in the GIF.
establishment of the Community and Voluntary Sector Working Party (GIF reference 3.6 in Table 6.1), which was established to give voice to the sector, and help it rebuild trust in the Government.\(^{50}\) The rationale for this supply-side emphasis is clear: to ensure efficiency within participating organisations, an added bonus of which might be better service provision, but not necessarily better outcomes:

According to New Zealand and international literature, there is little or no research evidence proving that collaboration in itself improves outcomes for individuals or for their families/whanau... However, there is some evidence that collaboration can enhance the quality of services and benefit participating organisations. These benefits include better processes, improved relationships, a greater capacity to respond to local needs, and a more efficient use of resources.\(^{51}\)

The primary emphasis is on improving the context in which social services are delivered, rather than extending or modifying the social services themselves.

In terms of community-based or local initiatives, those listed in the GIF emphasise “capacity” building, an approach that signals the move towards a social development approach to social service provision, from traditional welfare. The combination of the words social and development is described as an attempt to “displace 1990s economic man with a more interdependent social being.”\(^{52}\) In this context, it is useful for the Fifth Labour Government’s efforts to distance itself from the unpopular policies of the previous Government. As seen by the Government in June 2001, Table 6.2 summarises the differences between the two approaches:


Table 6.2: Summary of Key Characteristics of ‘Traditional Welfare’ and ‘Social Development’

<table>
<thead>
<tr>
<th></th>
<th>Traditional Welfare</th>
<th>Social Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Income assistance; little focus on lack of skills or other problems</td>
<td>Helping and supporting people while they lift their skills</td>
</tr>
<tr>
<td>Focus</td>
<td>The individual</td>
<td>The individual within their family or community (strengthening both)</td>
</tr>
<tr>
<td>Delivery</td>
<td>Centralised, impersonal</td>
<td>Local partnerships and individually tailored assistance</td>
</tr>
<tr>
<td>Aims</td>
<td>Income support to alleviate poverty</td>
<td>Poverty alleviated while participation skills are developed</td>
</tr>
<tr>
<td>Success Measures</td>
<td>Fast and efficient delivery of income support</td>
<td>People into sustainable work; others supported to participate; fast, efficient and responsive delivery of income support</td>
</tr>
</tbody>
</table>

The emphasis is still on the individual, but the range of policy options has expanded to include initiatives designed to address issues that are perceived to prevent individuals from participating fully in the labour market; such as low skill levels or educational attainment, medical conditions or disability, and hardship, in addition to social transfers:

It is in all our interests to build a better, fairer and more productive society with opportunity for all. A system that provides security, encourages people to realise their potential and assists them to make the difficult transition to work is a cornerstone of social development.

While the focus is primarily on individuals, there are examples of the Government offering funding or support to community and iwi organisations to either provide services or programmes at a local level, or to provide funds for grants to be offered on a competitive basis to community-based groups or projects. For example, the Community Organisation Grants Scheme (COGS) is described as a “community-

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54 Ibid., p 22.
driven government-funded scheme — an example of the community and government working together to build strong, sustainable communities, and to provide strong social services.”55 While the scheme is centrally funded, funding allocations are made locally by voluntary Local Distribution Committees.56

Duncan suggests that the main focus of capacity building is to address the deficiencies arising from contracting out social service provision. While it is preferable for the state to not intervene, the contracting out of social services can be problematic if groups do not have the organisational and administrative capacity to deliver social services successfully; capacity building refers to assisting these groups to succeed.57 The focus is still on the supply side, rather than on significant new funding for social service provision. Insofar as policy is focused on income support and social service delivery it is about recognising the links between elements of social development, and accordingly allocating limited resources.

Only two of these initiatives are directly concerned with income levels and basic living costs: these are restoring income related rents, and linking superannuation payments to average wages. These reforms have directly benefited some of those on lower incomes, which should be acknowledged. In the 2000 Budget, the Fifth Labour Government fulfilled one of their key election promises to restore income related rents to low income state tenants, reducing rents to no more than 25 percent of the tenant’s

56 It should be noted that this is not a newly introduced scheme: rather COGs celebrated its twentieth anniversary in 2006. The GIF simply indicates that the application process has been made available online (GIF reference 3.9), reflecting the political nature of the document in presenting the Fifth Labour Government’s achievements.
net income,\textsuperscript{58} although in reality, this policy does not apply to all tenants, due to the low income threshold.\textsuperscript{59} This was projected to benefit some 40,000 households by an average saving of $40 a week on their housing costs.\textsuperscript{60}

This initiative reversed the unpopular policy of the Fourth National Government’s shift away from providing affordable housing through direct access to rental housing and mortgage finance, to relying on market rents, made “affordable” to those on lower incomes via income support (the accommodation supplement), and an assertion that the state need not intervene in the housing market by improving the basic housing stock, as the market could be relied upon to deliver appropriate outcomes.\textsuperscript{61} The policy had adverse consequences for those on lower incomes: market rents in state housing increased 106 percent over the period 1992 to 1999, while rents in the private sector increased by only 23 percent.\textsuperscript{62}

The emphasis of Labour’s housing policy since 1999 was on affordable and adequate housing. The rationale for this policy is clearly political, but also follows the social development approach, encouraging social inclusion and participation. As Michael Cullen (then Minister of Finance) stated in the 2000 Budget Speech:

Education, housing, health and dignity in retirement are the core challenges of any civilised democracy. These programmes improve the participation of all New Zealanders in the full range of opportunities that a productive economy makes possible. The problem that we face as a society is that for too long participation has been a privilege, not a right.

\textsuperscript{58} This calculation is based on the income of the tenant and their partner, but also takes into account the composition of households. See DTZ New Zealand, 2004, \textit{Changes in the Structure of the New Zealand Housing Market}, Centre for Housing Research Aotearoa New Zealand, Wellington, p 57.
\textsuperscript{59} Campbell, S., 2000, “Point of Distinction”, \textit{New Zealand Political Review}, August/September 2000, p 43.
\textsuperscript{60} Cullen, M., 2000, \textit{Budget Speech 2000}, p 8.
\textsuperscript{61} DTZ New Zealand, 2004, \textit{Changes in the Structure of the New Zealand Housing Market}, p 50
\textsuperscript{62} Ibid., 52.
This Budget begins to redress the balance. There is something in this Budget for everyone, but because capacity to engage in social life is uneven, improving that capacity will require more to be spent on those who have been excluded.\textsuperscript{63}

The restoration of income related rents is one area in which the neoliberal approach was softened and constituted one way in which neoliberalism took a variant form.

Linking superannuation rates to 65 percent of the average ordinary time net wage was also an important policy change, but did not signal such a strong rejection of a previous policy focus as the housing example. As Cullen claimed in the 2000 Budget Speech, the reform safeguarded the relative living standards of superannuitants.\textsuperscript{64} It was also politically expedient: as one former senior Labour government official put it:

Once again pretty much pragmatic stuff. The constituency for superannuation being pegged was huge. Obviously it was one of those issues you had to resolve because if you didn’t, you wouldn’t be the government. There was obviously Mr. [Winston] Peters pushing it heavily as well... and the Labour constituency heavily... older people as they were at that time... I think it was just a pragmatic response saying we need to peg this to protect its value, and that will get it off the agenda.\textsuperscript{65}

While pragmatic in terms of the vote count, it is clearly a policy that allowed the Fifth Labour Government to promote itself as being distinctly different from the previous Government.

\textsuperscript{63} Ibid., p 13.
\textsuperscript{64} Ibid., p 12.
\textsuperscript{65} Interview with a senior minister in the Fifth Labour Government and the author, recorded and transcribed with Option B consent (unidentified as source), by telephone, August 25, 2010. “Mr Peters” refers to Winston Peters, Leader of the New Zealand First Party, popular with senior voters.
6.2.4 “A Healthy Population”

A similar supply-side perspective underpins all seven of the policies in the subsection “A Healthy Population”. They can be divided into three basic categories: those concerned with governance and service delivery; those concerned with funding and infrastructural issues; and specific initiatives designed to produce designated outcomes. They are summarised below:

<table>
<thead>
<tr>
<th>GIF Reference</th>
<th>Policy Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance and Service Delivery</strong></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Re-establishing community involvement in decision making in health</td>
</tr>
<tr>
<td>4.4</td>
<td>Improving service delivery, for example, by increased use of Māori and Pacific Island providers</td>
</tr>
<tr>
<td><strong>Level and Delivery of Funding/Infrastructure Needs of Sector</strong></td>
<td></td>
</tr>
<tr>
<td>4.5</td>
<td>Investing heavily in mental health services</td>
</tr>
<tr>
<td>4.6</td>
<td>Tackling health workforce shortages and building workforce capacity for the future</td>
</tr>
<tr>
<td>4.7</td>
<td>Providing a three year funding path to give greater certainty and to help plan the development of services</td>
</tr>
<tr>
<td><strong>Specific Initiatives</strong></td>
<td></td>
</tr>
<tr>
<td>4.2</td>
<td>Reducing waiting times for elective surgery</td>
</tr>
<tr>
<td>4.3</td>
<td>Introducing a new primary care strategy aimed at keeping people well, rather than just treating them after they get sick</td>
</tr>
</tbody>
</table>

Governance and service delivery policies are underpinned by the same rationale to community involvement and capacity as those in “A Modern Cohesive Society”. They look to the community, including of Māori and Pacific Island providers, to make decisions in the health sector, or they build capacity, echoing the new social development approach and hailing the “longstanding commitment to the indigenous
advancement —traditionally captured as Maori development.”

Table 6.4 below summarises the perspective as employed in *The Primary Health Care Strategy*, with the Old representing arrangements existing at the time of writing (2001) and the New reflecting the “vision”:

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focuses on individuals</td>
<td>Looks at health of populations as well</td>
</tr>
<tr>
<td>Provider focused</td>
<td>Community and people-focused</td>
</tr>
<tr>
<td>Emphasis on treatment</td>
<td>Education and prevention important too</td>
</tr>
<tr>
<td>Doctors are principle providers</td>
<td>Teamwork – nursing and community outreach crucial</td>
</tr>
<tr>
<td>Fee-for-service</td>
<td>Needs-based funding for population care</td>
</tr>
<tr>
<td>Service delivery is monocultural</td>
<td>Attention paid to cultural competence</td>
</tr>
<tr>
<td>Providers tend to work alone</td>
<td>Connected to other health and non-health agencies</td>
</tr>
</tbody>
</table>

The approach expresses a general desire to better meet the needs of Māori and Pacific Island communities, after years of failing to do so during the late 1980s and 1990s. The possibility of increasingly including Māori in decision making sounds encouraging:

From 2002/03 the Government expects DHBs [District Health Boards] to have firmly established mechanisms to involve iwi and Māori in their decision-making. These mechanisms will include formal relationships with iwi and Māori communities (at Board and operational levels), and processes to involve Māori in DHB needs assessment, prioritisation and monitoring processes.

The Government will also, with iwi, explore options for partnership at the central government level, including the option of an independent Māori advisory or monitoring body.

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68 Ibid., p 6.
In reality, the result was somewhat ineffective. Humpage describes the outcomes of the New Zealand Public Health and Disability Bill — initially designed to guarantee representation to Māori as well as establish partnerships — as having failed to entrench more than a “junior partner” role for Māori, while protecting the status of the Government in its role as senior partner.  

In the second category, the initiative of addressing workforce shortages and building workforce capacity (GIF reference 4.6) ignored the possibility of increasing real wages and improving working conditions. Instead, the Government responded to recruitment and retention problems by adopting a workforce development approach, an example of which is provided in *The New Zealand Health Workforce: Framing Future Directions Discussion Document*:

The report addresses strategic issues. It does not provide immediate solutions to current retention and recruitment difficulties. Workforce development can be a useful tool, for Government and the health sector, but one better suited to shaping and supporting an evolving health system rather than to responding reactively to immediate crises. It is an investment for tomorrow, a preventive measure to reduce future reliance on crisis management.  

This involves the development of workforce skills and values in line with *The Primary Health Care Strategy*, ensuring the workforce is responsive to changes within the sector, and continues to be employable. While the Government considers retention issues to be largely the employer’s responsibility, the Ministry of Health’s own documentation shows how limited the range of possible measures is for retraining their Māori

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employees. Out of a 23 question survey, only one question referred to remuneration, and employees were not asked whether they felt comparatively well-paid when considering their employment options. Instead, the focus was on facilitating both the development of skills and a commitment to lifelong learning to meet the requirements of the sector, as well as ensuring that the health workforce is flexible in the face of change.

In the third category, The Primary Health Care Strategy aims to better coordinate the provision of primary health care (for example, through general practitioners). Patients have to enrol in the scheme, but once enrolled, receive increased subsidies for doctors’ visits and prescriptions. While the strategy does contain some extra financial commitment from the Government, it should be noted that it is grounded in the social development approach which is supply side focused and investment-based in its approach: investing in health so recipients will be more productive and more likely to fully participate in society.

Labour claimed that they achieved significant reductions in waiting lists for elective surgery, and that patients could be guaranteed surgery within six months. Previously, patients who needed surgery were automatically placed on a waiting list, but waiting times were often extensive, and at times varied considerably depending on where the patient lived. The principles of the prioritisation method introduced by the Fifth Labour Government were:

- clarity, timeliness and fairness: clarity, where patients know whether or not they will receive publicly funded services; timeliness, where services can be delivered within the available capacity, patients receive them in a timely

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manner; and fairness, ensuring that the resources available are directed to those most in need.\textsuperscript{74}

However, to achieve these aims, the method was to simply adopt a more realistic (or higher) funding threshold (called the “actual Treatment Threshold” or aTT), meaning many patients who previously were placed on a waiting list no longer qualified under the new threshold. While this meant a significant breakthrough in reducing waiting times, those people who were actually sick and previously would have been given a commitment to an operation (even if they were on the list almost indefinitely), were essentially invisible in political terms.

\textbf{6.2.5 “Sound Environmental Management”}

The policies in the subsection “Sound Environmental Management” aimed to reduce the impact of environmental regulation on market transactions and to reduce trade barriers. In terms of size and scope, the two most significant policy concerns identified in this subsection are reducing costs to business in complying with the Resource Management Act (GIF reference 5.3), and introducing legislation to allow the use of genetic engineering technologies (GIF reference 5.4). The first policy follows from the supply-side rationale: reduced compliance costs benefit business interests, as the lighter the regulatory burden, the more efficiently firms can define their output and activities, reduce compliance costs, and benefit in terms of profit. The introduction of legislation governing the management of genetic modification technologies (GIF reference 5.4) in New Zealand prompted widespread opposition from academics and political activists, as well as general hostility (the group GE-Free New Zealand in Food and Environment states that 70 percent of New Zealanders were against the lifting of the moratorium on genetic engineering technologies in

\textsuperscript{74} Ibid.
2003, although it does not clarify what its source is).\textsuperscript{75} The emphasis placed on biotechnology as a source of future economic growth in the GIF may have been behind the legislation.

Increased funding for the national bovine tuberculosis (Tb) strategy (GIF reference 5.2) aims to eradicate tuberculosis in cattle and deer. New Zealand has a relatively high rate of this disease, with a one percent infection rate. For the country to be considered Tb free, this rate must be 0.2 percent or less, which would result in the avoidance of a perceived risk of trade sanctions in premium export markets.\textsuperscript{76} It is clear that farmers in particular would benefit from this increase in funding, and given that funding is provided by them (30 percent) along with the Government (60 percent) and ratepayers (10 percent), other business associations are unlikely to be hostile. In a similar respect, the Government committed to meeting international standards in climate change in the form of the Kyoto Protocol (GIF reference 5.5). It was claimed in the lead up to the ratification that: “New Zealand is one of the few developed economies which may make a direct and early profit from Kyoto, because of our ability to create carbon sinks, and our potential wind and hydro energy sources.”\textsuperscript{77}

In contrast, biosecurity of domestic markets was ratcheted up through the tightening of border controls (GIF reference 5.1), increasing the already high compliance costs associated with New Zealand’s biosecurity regulations: these costs


were thought by OECD officials to “remain a problem for the sector”.\textsuperscript{78} These policy initiatives reflect a concern for the needs of general capital, while sometimes responding to the needs of a specific sector (for example, the farming sector in the case of eradicating bovine tuberculosis). In ideological terms, these initiatives maintain New Zealand’s national identity as environmentally friendly, while simultaneously promoting exports and free trade.

6.3 The Minimum Wage and Working for Families

One core element used to evaluate the effectiveness of the GIF in this thesis is whether it benefited the standards of living of all New Zealanders, as claimed in the GIF document. However, all three of the senior Government officials interviewed by the authors all agreed that the GIF document was actually not about redistribution. As Hodgson confirmed to the author:

On the issue of redistribution, you are right the GIF doesn’t set out to address it, and actually if it were hugely successful would have made it worse, because we would have had lots of tech folk earning good money. However, apart from the fact that we started with little bits like minimum wage and dealing with income based rents and Housing New Zealand and so on, the big redistribution thing came with Working for Families much later, and this thing, GIF, was a whole lot more about making sure there was something to redistribute. It wasn’t redistributive in its frame. So if you want to criticise it for that you are spot on... you are right to criticise us for saying that it didn’t talk about redistribution, the only defense is that we decided to not do everything in one document, we decided to do growing and innovation in this document.\textsuperscript{79}

This sentiment is echoed by O’Reilly from Business New Zealand:

\textsuperscript{79} Hodgson, P., \textit{Interview with author (recorded and transcribed)}, 2 August 2010.
The main reason is because that redistributive bit wasn’t in there. In other words, other government policies were aimed at redistribution. For example, the rapid increase in the minimum wage well above inflation was one. Successive changes to the Employment Relations Act, in particular, the 2004 changes which strengthened collective bargaining was a means to achieve that...

Skill development policy was a good way, we agreed on that, didn’t agree so much with the first two, but I agreed with the third one, that skills development, literacy and numeracy, these kind of things, they are all a way of achieving a redistributive effort, because if you have got skills you might be paid more.80

He does, however, identify low unemployment as having a redistributive effect:

But the payback of growth was, of course, extremely low unemployment by the time the GFC [global financial crisis] came along... that also is a redistributive effort because once you’re off welfare and back to work you’re generally better paid, that’s about it. And as well as that, they were doing a bunch of stuff around attempting to, all of which we supported, trying to get people off the unemployment benefit quicker, trying to get people with disability into work, trying to do really micro things inside local communities to get hard to employ young people into work and rural and regional New Zealand. All of those things effectively are redistributive, they’re not a Marxist view of redistribution, they’re much more an orthodox Western view of redistribution but nevertheless that’s what they were.81

However, as Hodgson indicates, there were other elements to policy that were consistent with the GIF approach but not listed in the document. Given that they a) are not inconsistent with the neoliberal approach to development in the GIF, and b) have had some redistributive impact, the most significant of these policies are discussed in this section. They are: increasing the top tax rate, periodic and significant increases to the minimum wage, and the Working for Families package.

80 O’Reilly, P., Interview with author (recorded and transcribed), 1 December 2010.
81 Ibid.
After years of a very flat tax structure in New Zealand, the Fifth Labour Government increased the top marginal tax rate, on incomes over NZ$60,000, to 39 percent (previously 33 percent), effective from 1 April 2000. The taxation structure in New Zealand remained relatively flat, but the change did represent some commitment by the Government to redress previous tax inequities. When the bill was first introduced to Parliament in December 1999, Cullen argued it would only affect a small percentage of the highest earning population: “those who can most afford to contribute a bit more to the country’s well-being”\textsuperscript{82}, and implied that income would be redistributed via increased funding for state-provided social services:

The change is expected to bring in around $400 million a year for new spending. Half this will be paid by people earning over $140,000.

The Government will put the additional revenue to good and careful use. Some will be directed to creating new jobs and expanding the export base through our industry and economic development package.

The rest will go toward the Government’s social objectives, including the reversal of the 1999 pension cuts and the abolition of market rentals for low income State house tenants.\textsuperscript{83}

The personal income tax rates of 15, 21, and 33 percent for those earning less than $60,000 remained the same. At the same time, changes were made to fringe benefit tax, to more accurately link the rate of fringe benefit tax to the income level of the person being taxed. This means that a multi-rate system for fringe benefit tax was introduced, with the previous universal rate of 49 percent being replaced with a three-


\textsuperscript{83} Ibid.
Secondly, the minimum wage was periodically increased from 1990, but once Labour was elected, the increases were both more substantial and more regularly applied. Over the course of the Fifth Labour Government’s first two terms, the minimum wage increased from NZ$7.00 for adults and $4.20 per hour for both 16-17 and 18-19 year olds, to $9.50 for adults over 18 and $7.60 for 16-17 year olds. The changes under the Fourth National Government and the Fifth Labour Government to 2006 are summarised in Table 6.5 below:

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Table 6.5 Summary of Changes in Minimum Hourly Wage Rates for Adults and Youth 1990–2006

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Adults</th>
<th>18–19 Year Olds</th>
<th>16–17 Year Olds</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 September 1990</td>
<td>6.13</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>31 March 1994 (a)</td>
<td>-</td>
<td>3.68</td>
<td>3.68</td>
</tr>
<tr>
<td>22 March 1995</td>
<td>6.25 (2.0)</td>
<td>3.75 (1.9)</td>
<td>3.75 (1.9)</td>
</tr>
<tr>
<td>18 March 1996</td>
<td>6.38 (2.0)</td>
<td>3.83 (1.9)</td>
<td>3.83 (1.9)</td>
</tr>
<tr>
<td>1 March 1997</td>
<td>7.00 (9.8)</td>
<td>4.20 (9.7)</td>
<td>4.20 (9.7)</td>
</tr>
<tr>
<td>6 March 2000</td>
<td>7.55 (7.9)</td>
<td>4.55 (8.3)</td>
<td>4.55 (8.3)</td>
</tr>
<tr>
<td>5 March 2001 (b)</td>
<td>7.70 (2.0)</td>
<td>7.70 (69.2)</td>
<td>5.40 (18.7)</td>
</tr>
<tr>
<td>18 March 2002 (c)</td>
<td>8.00 (3.9)</td>
<td>8.00 (3.9)</td>
<td>6.40 (18.5)</td>
</tr>
<tr>
<td>24 March 2003</td>
<td>8.50 (6.3)</td>
<td>8.50 (6.3)</td>
<td>6.80 (6.3)</td>
</tr>
<tr>
<td>1 April 2004</td>
<td>9.00 (5.9)</td>
<td>9.00 (5.9)</td>
<td>7.20 (5.9)</td>
</tr>
<tr>
<td>27 March 2006</td>
<td>10.25 (7.9)</td>
<td>10.25 (7.9)</td>
<td>8.20 (7.9)</td>
</tr>
</tbody>
</table>

Notes: Percentage increases reported in parentheses
(a) Youth minimum wage introduced for 16-19 year-olds at 60 percent of the adult rate.
(b) Adult minimum wage applied to 18-19 year-olds; minimum wage for 16-17 year-olds raised to 70 percent of the adult minimum wage.
(c) Minimum wage for 16-17 year-olds raised to 80 percent of the adult minimum wage.

As Table 6.5 illustrates, the Fourth National Government increased the minimum wage for adults from $6.13 in 1990 to $7.00 in 1997, and it remained at that level until the end of their third and final term. This constituted an increase of 14.2 percent over nine years. The Fifth Labour Government made more substantial and regular increases to the adult minimum wage, from $7.00 in 1999 to $9.50 in 2005: an increase of 35.7 percent over their first two terms (if the 2006 change in the adult minimum wage is discounted).

wage is included, it increased by 46.4 percent in six and a half years). As Hodgson outlines, it was not initially meant to increase substantially above inflation, however:

[W]e had a specific aim which was to lift the minimum wage every year by more than inflation, but not a huge amount more. We would make the minimum wage relevant: it had slipped into irrelevancy, and then make it a modest driver, and if need be a moderate driver: an upward driver of wages. As we began that, unemployment had been high and then unemployment dropped, and as the years went by we got more and more confident. The alternative analysis was you lift wages high and people just won't be employed. We got more and more confident that that analysis was wrong. And so in the course of the nine years we lifted the adult wage from $7 to $12, way ahead of inflation, it was now becoming absolutely relevant.86

Significantly, the Fifth Labour Government did more than increase minimum wage rates. The youth minimum wage rates were introduced in 1994 at 60 percent of the adult minimum wage. On 14 December 2000, two important changes were made.87 Firstly, the qualifying age for receiving the adult rate was lowered from 20 to 18 years of age; as the table shows, this meant an immediate effective increase of 69.2 percent for 18 to 19 year olds. Secondly, the youth rate, which continued to apply to those aged 16 and 17 years old was increased from 60 to 70 percent of the adult rate (an 18.7 percent wage increase for those affected). These changes took effect from 5 March 2001. The youth rate was raised again in March 2002 to 80 percent of the adult minimum wage.

The motivation for increasing the minimum wage is worth exploring. Clearly it has redistributive impact, in that those in the lowest paying jobs are paid at least a

86 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
legally sanctioned wage and the regular increasing of that wage means their standard of living is not remaining stagnant, even if the increases are modest. Moreover, the ability to do so without resulting in unemployment was testament to the growth experienced at the time. However, there was further motivation: in the context of the GIF: the Government was trying to deter employers for relying on inexpensive unskilled labour to remain competitive: “There was encouragement for New Zealand business to distinguish their competitive advantage as high tech, high wage, cutting edge activity and competitiveness, rather than engage in a race to the bottom of low wages.”88 In other words, by increasing the minimum wage, it was hoped it would encourage employers to hire skilled labour over unskilled labour, and subsequently make work and investment in human capital pay. It is important to note that this did not automatically lift all wages, and in fact had the effect of flattening the wage structure. In practice, while this placed upwards pressure on wage rates, it did not necessarily lift wages of other employees. Hodgson described to the author his subsequent experience at the Ministry of Health:

When I stopped doing this and became Minister of Health for a time I found a lot of health workers on the minimum wage, and being pushed up only by the minimum wage. So that caused me, as Minister of Health, to be ashamed and embarrassed... this was two groups of people: first of all the people who work in hospitals (slushies, porters, and kitchen people) and secondly, people who work in home-based care and older people rest homes. We set out to determinedly lift their wages, not hugely, but above the minimum wage, because we were now the low wage employer.89

While the Government was setting wage minimums at the bottom, at the top wages and salaries were still dictated by the market. This was problematic for an innovation based economic development strategy in terms of redistributive outcomes:

89 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
GIF did have at its heart the idea that it would be good if we had an economy that was more high growth, high tech, high wage. That in fact we knew as we were going along there was something happening in the world, and which still is happening, which is that there is an international contest. People are either paid international salaries or local wages. One of the issues around having an innovative approach to economic development is that you will end up with more of the former, more of the international wages. More of the biochemist who can say well I am worth $150K so pay up or I'm off because I'll get it somewhere else. And then the person who comes and cleans their house not having that economic power. We were well aware, we spoke about it, that innovation was the driver for inequality, and that the only way to address that on the wages front was through the minimum wage.\footnote{Ibid.}

In other words, the increase in the minimum wage was about addressing precisely what was seen to be problematic in the GIF from a redistribution point of view.

The most substantial attempt at redistributive social policy under the Fifth Labour Government was Working for Families. It was introduced in 2004, and principally involves in-work tax credits and child care subsidies for families under an income threshold. To qualify, at least one parent must be employed: for two-parent families, parents must work in paid employment for at least 30 hours per week between them, and for one-parent families, the parent must work for at least 20 hours per week. Those on most other forms of income support, such as benefits, do not qualify.\footnote{O’Brien, M., 2005, “What Kind of New Zealand Do We Want to Build? Towards an Inclusive Social Policy”, in \textit{A Third Term? Evaluating the Policy legacy of the Labour-led Government, 1999-2005}, Social and Cultural Studies, No. 5 (August 2005), Massey University, Albany, Auckland, p 8.} Working for Families is designed to extend support not just for those on lower incomes, but to those on middle incomes, many of whom previously did not qualify for additional assistance.\footnote{See for example, Perry, B., 2004, “Working for Families: The Impact on Child Poverty”, in \textit{Social Policy Journal of New Zealand}, Issue 22, July 2004, p 20.}
The rationale underlying Working for Families is that it is best for citizens to be in paid work, and that the state should therefore encourage and even subsidise working families. As outlined in the 2004 Budget Speech, the package has three key aims:

- to make work pay by ensuring that people are better off by being in paid work and are rewarded for their work effort
- to ensure income adequacy, with a focus on low to middle income families with dependent children, to address issues of poverty, especially child poverty, and
- to support people into work by ensuring people get the assistance they should to support them into, and to remain in, work.\(^{93}\)

Both the first and third of these aims emphasise making paid work more attractive than not working: whether a person chooses not to work because they are studying, staying home and caring for their children themselves, are physically incapacitated, or are simply unable to find a suitable job.

Encouraging and enabling all who choose to participate in paid employment without penalty is held to have important social-economic outcomes. It draws heavily on the social development approach as outlined in the document *Pathways to Opportunity*, which highlights some of the issues faced by parents in participating in paid work, particularly issues around the cost and availability of childcare.\(^{94}\) At an individual level, Working for Families is portrayed as enabling people to participate in paid work, and subsequently feel included in society. In fact, *Pathways to Opportunity* highlights


\(^{94}\) *Pathways to Opportunity*, p 14.
Opportunity claims that “extending opportunities so no one group is denied the full rights, benefits and responsibilities of citizenship is a key challenge being addressed by the Government.” Social support is seen as an investment, designed to “lift people’s capacity today, so they can look after themselves tomorrow.” While it is implied that this goal is linked to wider economic objectives, the emphasis is still on “opportunities”:

For New Zealand to compete successfully in the global economy, we need skilled workers. The sense of security provided by an effective and properly-focused social development approach can support people to develop their job skills, and provide a springboard for them to move to new opportunities.

In a time of declining unemployment labour, particularly skilled labour, was becoming more scarce (although this clearly varies between industries and sectors). For this reason, the focus of the social development approach is also on investment in the development of human capital:

All groups are to avail themselves of this human resources development, with initiatives targeting the spectrum of potential job-seekers. These include long-term unemployed and older workers (with intensive case management, incentives, work-testing). Measures aimed at those with long-term sickness and ill health detached from the labour market and recognising potential to work were included in the 2003 Jobs Jolt, 2004 Working for Families package and, more recently, are a centrepiece of 2007 amendments to the Social Security Act.

While encouraging people into paid work may improve the opportunities of individuals and families, one primary motivation behind Working for Families is the perception that it will be good for the economy. According to Treasury:

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95 Ibid., p 20.
96 Ibid., p 1.
97 Ibid., p 1.
Increasing the numbers of working-age people in employment will increase the economy’s output. The government can help to do this by encouraging welfare beneficiaries to achieve sustainable employment; improving school outcomes for those currently leaving with low skills; and reviewing labour market arrangements that affect the costs of employing workers.\(^9^9\)

The assumption that an improved capacity to take part in paid work outside the home is always going to be viewed as a positive step by parents is shortsighted. A number of factors come into play when deciding whether to re-enter the work force, not least of which is “readiness” to leave children in the care of others. Subsidised childcare is a positive move in recognising the constraints that parents face in re-entering the workforce. However, the expectation that because it is available parents should take it up, and be penalised (in the form of less direct income support) if they do not, coerces parents to chose paid work over unpaid domestic work in the form of childcare. Working for Families has been criticised for devaluing unpaid work which is predominantly, but by no means exclusively, carried out by women.\(^1^0^0\) The impact on lone parents is even more severe, because at least in a two-parent family one can stay home, or the paid employment hours can be divided between parents who can still care for their own children. From a neoliberal perspective however, it makes sense because it reduces tax burden as well as having the potential to assist the generation of a skilled future workforce through incentivising placing children in formal child care and early childhood education settings.

By rewarding those who work, the policy automatically and deliberately excludes beneficiaries, even those who also have children. Although small increases were made to some benefits, such as the anchoring of benefit rates to inflation, the


overwhelming message of the package is that the poor can be divided into the “deserving” and the “undeserving”, or those who have a high probability of ceasing to be poor and those who do not. This notion was introduced in New Zealand in the 1990s, and continues to remain a feature:

Exclusion is, of course, not limited to children. Rather, it extends to all those who for whatever reason are not in paid work. It is paid work, and only paid work, that is the basis on which citizens are to be included. Other unpaid work, such as caring for children or for a family member with a disability, does not create a basis for inclusion. While more citizens are included than was the case in the 1990s, there are still very important exclusions.  

To return to the three aims of the Working for Families package outlined in the 2004 Budget Speech, the second of these, to “address issues of poverty, especially child poverty”, has been severely criticised. The most substantial critique can be found in Cut Price Kids: Does the 2004 ‘Working for Families’ Budget Work for Children?, written by Susan St. John and David Craig of the Child Poverty Action Group. They find that while there are likely to be very significant gains for eligible families, although families receiving benefits may not become worse off in absolute terms, many of them are disadvantaged in relative terms. Instead, they advocate for a family assistance package that is not dominated by employment-related policy, but remains child-focused: in other words, it focuses on providing adequate social support to families regardless of whether the parents are on a benefit or in paid work.

104 Ibid., pp 26-32.
In this vein, the Child Poverty Action Group has pursued the issue of the discriminatory nature of the In-Work Payment and its predecessor, the Child Tax Credit, through the Human Rights Tribunal. The extent to which Working for Families is discriminatory along with the historic benefit cuts of the 1990s, meant that even under the Fifth Labour Government, the effects of social policy were not evenly distributed. Anderton elaborated to the author:

If there were any casualties to the social policy development they tended to be beneficiaries. Partly because the previous National Government had cut the income level of beneficiaries very significantly during its term of office and those cuts were never really addressed, they were redressed. I mean people got increases but they were increases on what had become a lower base anyway. So, if one group of people could be held to have not benefited as well as they could or should have expected, it was beneficiaries.

Clearly, even the Government acknowledges that not all outcomes of social policy were sufficient to ameliorate the poverty of beneficiaries. Tendentiously, the Working for Families package conveniently ignores a major characteristic of the New Zealand labour market: a long-term trend of declining real wages. As Roper puts it:

The programme provides income and accommodation supplements to the working poor in order to ensure that ‘people are better off by being in work and are rewarded for their work effort’ (Budget 2004, Speech, p.12). This conveniently sidesteps the issue of why a substantial section of the paid labour force receives low incomes. A major reason is that the industrial relations system created by the ECA and retained by this Government [in the form of the ERA] has removed union and award protection for large sections of the labour force, allowing employers to drive down wages. The poverty of those in paid work should be addressed by reforming the industrial relations system in order to enable unions to increase their membership and bargaining power. As it is, the provision of income

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106 Anderton, J., Interview with author (recorded and transcribed), 20 October 2010.
supplements to the working poor indirectly subsidises employers who are paying low wages.\textsuperscript{107}

Importantly, the business community has remained largely quiet on the issue of Working for Families. While they were outspoken on the issues of the increase in the higher tax bracket and substantive increases to the minimum wage as they create cost burdens for business, it is not always the case that business opposes progressive social reform. In the work of Mares and Swenson the possibility of progressive social policy that is supported by business communities is investigated. Mares investigates workplace accident and unemployment insurance policies in France and Germany and examines under what conditions employers are sometimes willing to extend such schemes when they advance the needs of workers.\textsuperscript{108} Likewise, Swenson identifies what he calls a “historical puzzle”: he compares the implementation of progressive social policy in the United States during the Great Depression in the context of relatively weak left-wing and worker mobilisation, to the experience of Sweden, with what he describes as the “world’s strongest Social Democratic labor movement” but did not pass crucial substantially progressive social policy until the 1940s and 1950s.\textsuperscript{109} Both authors challenge the notion that the traditional class divide is immovable, and cite the costs imposed on employers as a key reason for their motivation to sometimes support progressive social policy. This is a particularly useful observation in the case of Working for Families, which effectively subsidises the low wages characteristic of the New Zealand economy while seeking to shift investment in directions that are not dependent on a low minimum wage: to higher productivity areas of the economy.

\textsuperscript{107} Roper, B. S., 2005,\textit{ Prosperity for All?}, pp 233-4.
also helps the Government to retain electoral support from its core Labour voters, because it is seen as supporting workers who are struggling.

The particular adeptness of the Fifth Labour Government in pursuing this agenda is noted by St John and Craig: “Overall, the changes are generous and even ingenious in finding ways to subsidise and transfer money to workers, and rigorous in maintaining the differences between workers’ children and children in families receiving a benefit.”\textsuperscript{110} For these reasons, Working for Families has not received any substantial criticism from the business sector. In line with the work of Mares and Swenson introduced in the introduction to this chapter, Working for Families has some redistributive effect and therefore could be called “progressive social policy”, but actually indirectly reduces costs to employers through subsidising the low wages characteristic of the New Zealand economy. Elements of the punitive welfare state consolidated by the Fourth National Government remain. Treasury reveals the underlying assumptions more clearly than they are articulated in the GIF:

Income transfers are important for the well-being of people in temporary difficulty, and those who will always find it difficult to earn adequate income in the labour market. However, the evidence suggests that it is better for economic growth that those who can, support themselves through paid work. Social assistance reforms should therefore place a high weight on getting beneficiaries into a job. Policies to support this include job search assistance, clearly signaled job search expectations, and “making work pay” policies, such as in-work tax credits.\textsuperscript{111}

Finally, the coincidence of this approach with declining unemployment should not be overlooked. In times of high unemployment, workers have relatively little bargaining power, because if they are not happy with wages and conditions, they face few

employment alternatives and risk unemployment. On the other hand, when unemployment is lower and replacement labour is relatively scarce, wage rates are subjected to upwards pressure. Despite the widespread effects of the global financial crisis, the abandonment of a full employment policy continues, and the emphasis is still on the individual in terms of encouraging labour force participation. This is also reflected in the fact that nine years later and over halfway through the second term of the Fifth National Government, Working for Families remains intact, although unemployment has since risen substantially.

Conclusion

The broader context of “Strengthening the Foundations”: in other words, the Government’s approach to economic and social development, was formally left off the SIAC consultation agenda. Given the potential for this framework to influence redistribution of income, this seems shortsighted and is an important limitation with the SIAC consultation process. Business associations and trade unions have different capacities to lobby and influence government, and the constraints facing trade unions are particularly acute when it comes to these broader policy questions, because of the different resource base available to unions, and because of their different focus as outlined in section 6.1. This wider context was also referred to in the Wider Representation Report, which highlighted the limitations that some participants saw in the PIF, focusing narrowly on the needs of business.

The chapter has extended the detailed analysis of the underpinnings of GIF policies to those contained in “Strengthening the Foundations” and as such in section 6.2 examines each policy area in turn. The macro and microeconomic policy agenda remains the same: monetarism, fiscal responsibility, a moderately softened industrial
relations regime, a commitment to reducing regulatory burdens, building the competitiveness of the economy to encourage investment of capital and promoting international trade. Even in areas of social policy (including health) the overall emphasis is on improving the supply-side of delivery, rather than providing significant new funding. Most instances of policy maintained the status quo, enhancing but not changing the direction of social policy, with two important exceptions: the restoration of income-related rents and the linking of superannuation to average wages. These two policies did advance the standards of living of state housing tenants and superannuitants. Overall though, the impact of the policies here was modest.

However, the Fifth Labour Government did more for social policy than is reflected in these sections of the GIF alone: namely, it raised the top marginal personal tax rate from 33 to 39 percent in April 2000, systematically increased the minimum wage and took steps to eliminate the youth wage rate, and introduced the Working for Families package. The first two of these represented an attempt to introduce progressivity back into the tax structure and address the issue of minimum wages that were not keeping up with inflation. Both benefitted those on lower incomes, and those in age-related pay scales. However, while Working for Families provided relief to working parents below the threshold in the form of tax credits and other family support, it is fundamentally discriminatory and plays a key role in subsidising the low-waged economy of New Zealand. Coinciding with the lowest rates of unemployment since the late 1970s, its introduction was clearly about “incentivising” people into the labour market to raise productivity and the profitability of industry, and while beneficial for those on low to middle working incomes, has left beneficiaries and their families out in the cold.
PART THREE:

THE GROWTH AND INNOVATION FRAMEWORK: BENEFIT TO ALL NEW ZEALANDERS?
Chapter Seven

Did It Work?
Economic Outcomes of the Growth and Innovation Framework

Introduction

So far, this thesis has considered the first two of the three research questions identified in the Abstract. It has identified the central features of the Growth and Innovation Framework, and the extent to which it constituted a variant of neoliberalism. The influence of class-based interest groups and day-to-day politics on the formulation of the GIF have also been examined through the SIAC consultation process, commentary from key actors and the media, and key policy documents. The thesis now turns to the third of the research questions in this project: the evaluation of the GIF’s economic and social outcomes. Chapter Eight addresses the impact of the
Fifth Labour Government’s variant of neoliberalism on social outcomes. In the meantime, this chapter considers the impact of the GIF on the economy.

This chapter is concerned primarily with the question of whether the GIF ‘worked’ in economic terms. Section 7.1 considers whether it was realistic that the GIF could lift New Zealand’s per capita GDP to a level which would place the country back in the top half of the OECD countries by 2011, given New Zealand’s rate of economic growth during this period. This is supplemented by examining other major orthodox macroeconomic indicators: inflation, unemployment, and the terms of trade.

This data presents a limited picture of the impact of the GIF. The Ministry of Economic Development (MED) developed and reported regularly on a number of “benchmark indicators”, to monitor the impact of the GIF on various elements of the economy: these are considered in section 7.2. Because innovation and its commercialisation were central to the GIF, it is also important to assess whether the rate of innovation increased with the introduction of the GIF. Section 7.3 examines various measures of innovative activity, including through intellectual property protection and data from surveys of firms on innovation. Finally, I consider possible explanations of the economic outcomes for the New Zealand economy under the first two terms of the Fifth Labour Government in section 7.4.

### 7.1 Orthodox Macroeconomic Indicators: The GIF’s Primary Criteria

The primary objective of the GIF was to increase the level of economic growth. This section evaluates this objective and places growth in the context of the overall position of New Zealand in relation to the other OECD countries. Secondly, it considers other key orthodox macroeconomic indicators, including the level of
unemployment, the rate of inflation, and the terms of trade index to give an overview of the performance of the New Zealand economy over the Government’s first two terms. The first question is whether the GIF has generated significant levels of economic growth. As Figure 7.1 indicates, all years from 2000 to 2008 show positive economic growth, and for all years except 2007 exceeded 2 percent:

![Figure 7.1: Annual Rates of Change in Real GDP 2000 to 2008](image)

While these figures seem encouraging, it is helpful to put them into some historical context, as in Table 7.1:

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1 Statistics New Zealand, Hot Off The Press series, built using Infoshare at:
http://www.stats.govt.nz/infoshare/ViewTable.aspx?pxID=365de6e7-8dc4-4519-85bb-d4c075429575
Table 7.1: Average Annual Rate of Economic Growth During Each New Zealand Government 1945 to 2005

<table>
<thead>
<tr>
<th>Term</th>
<th>Government</th>
<th>Relevant years (ending March)</th>
<th>Average Annual Rate of Economic Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935 to 1949</td>
<td>First Labour</td>
<td>1936 to 1949</td>
<td>5</td>
</tr>
<tr>
<td>1949 to 1957</td>
<td>First National</td>
<td>1950 to 1957</td>
<td>3.9</td>
</tr>
<tr>
<td>1957 to 1960</td>
<td>Second Labour</td>
<td>1958 to 1960</td>
<td>4.2</td>
</tr>
<tr>
<td>1972 to 1975</td>
<td>Third Labour</td>
<td>1973 to 1975</td>
<td>5.2</td>
</tr>
<tr>
<td>1975 to 1984</td>
<td>Third National</td>
<td>1976 to 1984</td>
<td>1.3</td>
</tr>
<tr>
<td>1984 to 1990</td>
<td>Fourth Labour</td>
<td>1985 to 1990</td>
<td>1.4</td>
</tr>
<tr>
<td>1990 to 1999</td>
<td>Fourth National</td>
<td>1991 to 1999</td>
<td>2.2</td>
</tr>
<tr>
<td>1999 to 2005</td>
<td>Fifth Labour (first two terms)</td>
<td>2000 to 2005</td>
<td>3.8</td>
</tr>
</tbody>
</table>

The average rate of economic growth as measured by percentage change in GDP recorded from 2000—2005 appears high in comparison to recent New Zealand experience. However, prior to 1975, the average rates of economic growth for the five governments in power since 1935 have been higher again, in two cases reaching at least 5 percent. Although it is fair to say that the New Zealand economy has

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3 These are relevant because they more closely represent the economic performance of the relevant government: for example, National were elected in November 1975 and remained in power until July 1984. To include the economic growth rate for the year ending March 1975 would be irrelevant to the Third National Government.
experienced a recent increase in the average rates of economic growth that could be associated with the election of the Fifth Labour Government, the significance of this should not be over-emphasised, because there was a strong cyclical recovery in economic activity from 1999 to 2006.\(^4\)

Moreover, the GAINZ document clearly states that a primary objective of the GIF is to lift per capita GDP to the degree that New Zealand ranks in the top half of OECD countries by 2011.

**Figure 7.2  Gross Domestic Product Per Capita for New Zealand Compared to OECD and Euro Averages 1997 to 2007\(^5\)**

As the official GIF publications tell us, during the 1970s New Zealand enjoyed per capita GDP at a level above the OECD average until 1977.\(^6\) In 1978, the OECD

\(^{4}\) China has been a growing export destination for New Zealand commodities, culminating in the New Zealand-China Free Trade Agreement that came into force on 1\(^{st}\) October 2008.

\(^{5}\) OECD Factbook 2011: Economic, Environmental and Social Statistics, OECD, accessed at 24 August October 2012 from http://www.oecd-ilibrary.org/sites/factbook-2011-en/03/01/01/index.html?contentType=&itemId=/content/chapter/factbook-2011-17-en&containerId=/content/serial/18147364&accessItemIds=&mimeType=text/html

\(^{6}\) OECD Factbook 2006: Economic, Environmental and Social Statistics, Organisation for Economic
average per capita GNI surpassed that of New Zealand, and has continued to do so ever since. While New Zealand performed at a level only marginally below the OECD average until 1984, the gap consistently widened until 1992, and while it narrowed in the mid—1990s it since widened. By 2000, New Zealand’s per capita GDP was $US 3,320 below the OECD average, and the gap continued to widen due in part to the increase in the OECD average: by 2006 the difference was US$4,509. The per capita GDP ranking of New Zealand in relation to the rest of the OECD countries has slipped consistently over this period, from 7th in 1974, to 19th for most of the 1980s and 1990s, and finally to 22nd in 2009.  

Key political actors had insightful commentary on whether the 2011 goal was realistic. Jim Anderton, the former Minister for Economic Development, recognised it was ambitious but also insisted much was achieved during the Fifth Labour Government in economic and social terms:

The per capita GDP goal of being in the top half of the OECD by 2011, well, I mean, this was obviously an aspirational goal which I don’t think there was sufficient evidential base to see if it could be realised actually. But, New Zealand was in better shape after the nine years of our Government than it had been previously. We had a very quick period of economic growth actually, in the nine years. The National Party get away with murder the way they say we were hopeless because it wasn’t, and we reduced unemployment to the lowest levels we had had in a generation, and people’s lifestyles and sense of wellbeing were much improved. It

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Cooperation and Development, Paris. Available at:
http://caliban.sourceoecd.org/vl=4444959/cl=14/nw=1/rpsv/factbook/02-01-02.htm, accessed 24 October 2006. http://www.oecd-ilibrary.org/sites/factbook-2011-en/03/01/01/index.html?contentType=&itemId=/content/chapter/factbook-2011-17-en&containerItemId=/content/serial/18147364&accessItemIds=&mimeType=text/html

7 OECD Factbook 2011: Economic, Environmental and Social Statistics, GDP Per Capita.
didn’t help the election result nine years later that’s true... we were in the middle of a recession when the 2008 election came.\textsuperscript{8}

These are valid points. However, in a personal communication with the author, Hodgson provides an even more interesting insight into the background to the inclusion of the goal in the GAINZ document. He commented that after the initial brainstorm when the per capita GDP goal was discussed, they realised that the deadline for the goal was too ambitious:

I can happily confirm that the ‘top half of the OECD per capita income’ was the overall goal of the GIF. I can confirm that in one iteration we had stated an aim to deliver that outcome ‘by 2011’, until we did the arithmetic and found that aim too optimistic. I can also confirm that the final documentation was shorn of the ‘2011’ timeline, except in one place where it was inadvertently left in. From memory it was near the beginning of the document.\textsuperscript{9}

The reference to the 2011 deadline for the per capita GDP goal appears in a graphic on page 14.\textsuperscript{10} Despite the intention to remove reference to the deadline, it subsequently remains in other related GIF documentation, and is therefore still relevant to using it as an internal criterion to measure the GIF’s record.

\textsuperscript{8} Anderton, J. 2010, Interview with the author, recorded and transcribed.

\textsuperscript{9}Hodgson, P, 2012, Personal communication with the author, 23rd August 2012.

\textsuperscript{10}GAINZ, p 14.
Figure 7.3 depicts the inflation rate over the period from 1997 to 2007. In the quarter ending September 1999, the yearly rate of inflation had reached -0.5 percent. To put this in historical context, a comparison with Figure 2.4 illustrates that this rate of inflation is the lowest since 1973. This historical low was immediately followed by a sharp and steady increase in the yearly rate of inflation, lasting just over one year to December 2000, at which point it peaked at 4 percent. Following that, it returned to less than 3 percent by September of 2001, remaining within the bounds of the Policy Targets Agreement (under 3 percent). This lasted until June 2006, when it again reached 4 percent, although this figure should be kept in perspective, as a more

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11Key Statistics series, Statistics New Zealand, Wellington, compiled from various issues, Table 6.03.
medium-term focus on average inflation rates had been adopted in September 2002, and it subsequently lowered again through 2007.

During the first two terms at least, it appears that the Fifth Labour Government met their goal to minimise inflation over the medium term, although at what cost to the rest of the indicators? Unemployment is the most important of these:

**Figure 7.4 Official Rate of Unemployment 1990 to 2005**

![Diagram showing official unemployment rate from 1990 to 2005]

Perhaps more central to the spin on the economic success story promulgated by the Fifth Labour Government is the decline in unemployment. As Figure 7.4 shows, in the year of Labour’s election, 7.4 percent of the labour force was officially unemployed; that is, they were without a paid job, and both available for and actively seeking work. To put this in historical context, the official unemployment rate peaked in 1992 at 10.6 percent of the labour force, the highest it has been in the post-war era. Since

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13 *Labour Market Statistics*, Statistics New Zealand, Wellington, 2008. Data is from Table 5.11, p 88, while the total labour force used in the calculations is from Table 2.02, p 46 with earlier data from the 2005 edition, Table 1.5, page 28.
14 It should be noted that this measure cannot be directly compared to the unemployment data
1999, it has fallen steadily, and while it sat between five and six percent between 2001 and 2003, it dropped significantly to reach 3.8 in 2005. The official unemployment rate almost halved between 1999 and 2005.

Figure 7.5 shows that the percentage that are identified as officially unemployed consistently falls below alternative measures. The definition of officially unemployed offered by Statistics New Zealand is “those people who were without a paid job, available for work and actively seeking work”. While it seems logical to assume that the official unemployment rate corresponds with the number of people registered as unemployed, this is not the case. The term “Registered Jobseekers” replaced the term

discussed in Chapter Three, in which the more inclusive data series of registered unemployed was used. These issues of measurement will be discussed shortly.

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16 Ibid, p 61.
“Registered Unemployed” in October 1999. The discrepancy between the number of registered unemployed and the official unemployment rate (a standard definition accepted by the International Labour Organisation\(^{17}\) is often cited in the literature and may have motivated a change in terminology; however, a major factor has been an emphasis on the responsibilities of those receiving benefits with respect to moving as soon as possible back into the workforce.\(^{18}\)

More importantly, as mentioned earlier, this category is the same as the former “Registered Unemployed” category, which is considered by many authors to more accurately reflect the rate of unemployment in New Zealand. Although it had previously followed the trends of the official unemployment rate and other measures, rather than declining immediately after the election of the Fifth Labour Government “Registered Jobseekers” increased to 11.3 percent in 2001, exceeding the broader categories of “Surplus Worker” (those without a paid job and available for work) and “Jobless” (those without a paid job and either available but not seeking work, or seeking but not available for work).\(^{19}\) While it subsequently declined, the number of “Registered Jobseekers” exceeded these other categories until 2003, at which point it fell below the “Jobless” rate but was still 3 percent above the official unemployment rate at 8.1 percent. Since then it has declined more rapidly than the official unemployment rate, reaching 4.6 percent in 2005. One reason for this decline may be that many beneficiaries moved at least partially in response to the extra work incentives offered under the Working for Families package. The more rapid decline in registered jobseeker numbers may also reflect that as one person moves off a benefit,


\(^{18}\) In this context it is conceivable that this category is more inclusive than that of “jobseeker”, the criteria of which are “those people who were without a paid job and seeking work by active or passive means”, which falls between the two categories of officially unemployed and registered jobseeker by virtue of how aggressive the job search is being conducted.

their partner too may no longer have to meet a work test, which may mean deregistering as a job seeker, even if they do not become employed. In terms of the ongoing sustainability of falling unemployment over the Fifth Labour Government’s first two terms, unemployment leveled out in the lead up to the global financial crisis. While the onset of the crisis is not the topic of this thesis, it does place a question over the ongoing ability of neoliberal policies to contain and minimise the impact of market failure in this and other respects.

Given the importance of export-driven growth for a small country like New Zealand, and the attention given to export markets in the GIF, the price of exports relative to imports is important to international competitiveness and is reflected in the terms of trade index over the period:

![Figure 7.6 Terms of Trade Index (Base: Quarter ended June 2000 (=1000)](source)

Over the latter half of the Fourth National Government, the price of New Zealand’s exports fell relative to the price of imports, demonstrated in Figure 7.6. While the

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terms of trade index has become much more stable since the early 1990s, this trend to slowly decline was characteristic from 1994,\textsuperscript{21} to the year ending June 2000, when it reached 966. From June 2000, it steadily increased, with the exception of a dip in the year ending June 2003, and by 2005, it had reached 1088. If the data series above is segmented with respect to the 1990 and 1999 general elections, it could be argued that an increase in the terms of trade coincides with both the Fourth and Fifth Labour Governments’ terms in office, whereas during the Fourth National Government, the terms of trade consistently declined, with the exception of a modest increase between June 1992 and June 1993.

7.2 The GIF Benchmark Indicators

In August 2003, the MED published three reports as part of its monitoring of the GIF: the *Growth and Innovation: Benchmark Indicators Report 2003*, the *Growth and Innovation: Progress Report 2003*, and an accompanying *Growth and Innovation Framework: Goals for Growth*, which summarises and introduces the other, more detailed reports. While the *Progress Report* showcases key initiatives in the 2002 and 2003 Budgets, the *Benchmark Indicators Report* launched a series of indicators to be used to measure progress made in key areas of the economy, and to “provide an opportunity to review the assumptions on which the GIF is based and highlight possible areas for change in the framework over time”.\textsuperscript{22} Seventeen indicators are identified, with GDP per capita as the “principal” indicator,\textsuperscript{23} presented in Figure 7.7:


\textsuperscript{23} Ibid., p 8.
Productivity is identified as a key contributor to income levels and is also given the status of a “high level indicator”. The report states a preference for total or multi-factor productivity, but uses labour productivity due to reliability and availability.

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25 Ibid., p 12.
26 Ibid., p 8.
As Figure 7.8 illustrates, labour productivity measured in terms of GDP per unit of labour input has increased slowly and steadily over the last seventeen years, but in perspective, a similar measure of labour productivity declined only three times from 1960. However, when examining percentage changes in labour productivity over the period, it is clear that the level of increase can fluctuate considerably, which is not immediately obvious in Figure 7.8. Between 1989 and 1999, before the Fifth Labour Government was elected, labour productivity increased by 2.83 percent on average. From the year ending March 2001 onwards, annual increases in labour productivity did not surpass 2.0 percent. As with the other major macroeconomic indicators, recent performance has to be kept in historical context. The relevance of this indicator to the ongoing performance of the New Zealand macroeconomy will be discussed further in section 7.4. In the meantime, the historical increase in an open industrialised country

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is a common experience due to the diffusion of technology over time. The variations reflect that this is not an even process, and that there are political conditions shaping the class struggle that change over time. With this level of data, it is not possible to separate out the causes of these short-term fluctuations.

The five categories of “low level” indicators presented in Figure 7.7 also require some examination. What follows is a brief discussion of some of those indicators considered in four of these categories: changes in the supply of talent and skills, changes in investment, global connectedness and the category of ‘other’ indicators (the fifth category, innovation, entrepreneurship and technological change will be examined in section 7.3). Both the Benchmark Indicators Report and the subsequent report released in 2005 Growth Through Innovation Sustainable Economic Growth for New Zealanders: Economic Development Indicators (hereafter 2005 Progress Report) contain a considerable number of graphs and tables. Only a representative sample of the indicators is included in this section. They are organised according to the categories in Figure 7.7, and presented in summary tables for brevity.

Changes in the supply of talent and skills are conceptualised as important because “when effectively matched to labour demand, improvements in labour skills can have a significant impact on productivity.”

Indicators listed include the educational attainment of the population, the upskilling of the workforce, and the net inflow of skilled people. By the time of the 2005 report, the list had expanded to include basic literacy and numeracy, the level of management and leadership skills, and overall skill shortages. A selection of these indicators is presented in Table 7.2:

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30 Ibid., pp 24–32.
The proportion of the adult population with highest educational qualification is considered to be important because a “high value-added economy” needs a workforce that “possess[es] the necessary skills and training to do what firms require”, to lift

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**Table 7.2  Summary of Selected Benchmark Indicators Used to Measure Changes in the Supply of Talent and Skills**

<table>
<thead>
<tr>
<th></th>
<th>Percentage of adult population aged 25-64 with highest qualification</th>
<th>Percentage of school leavers with no qualification</th>
<th>Total Number of Industry Trainees</th>
<th>Skilled migration (net migration by NZSCO Occupational Major Group)</th>
<th>Annual net permanent and long term migration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Secondary school</td>
<td>Post school certificate / diploma</td>
<td>Degree / post-graduate</td>
<td>1 &amp; 2</td>
<td>3, 4, 5, 6 &amp; 7</td>
</tr>
<tr>
<td>1995</td>
<td>18,344</td>
<td>4,486</td>
<td>1,850</td>
<td>-297</td>
<td>27,270</td>
</tr>
<tr>
<td>1996</td>
<td>23,957</td>
<td>6,305</td>
<td>3,346</td>
<td>-415</td>
<td>32,060</td>
</tr>
<tr>
<td>1997</td>
<td>31,652</td>
<td>5,004</td>
<td>1,476</td>
<td>-677</td>
<td>38,320</td>
</tr>
<tr>
<td>1998</td>
<td>21.5</td>
<td>40.0</td>
<td>11.9</td>
<td>18.1</td>
<td>45,392</td>
</tr>
<tr>
<td>1999</td>
<td>21.9</td>
<td>40.1</td>
<td>12.4</td>
<td>17.2</td>
<td>49,577</td>
</tr>
<tr>
<td>2000</td>
<td>22.2</td>
<td>40.2</td>
<td>12.6</td>
<td>16.5</td>
<td>63,102</td>
</tr>
<tr>
<td>2001</td>
<td>22.2</td>
<td>41.0</td>
<td>13.0</td>
<td>17.0</td>
<td>66,386</td>
</tr>
<tr>
<td>2002</td>
<td>21.7</td>
<td>41.5</td>
<td>13.6</td>
<td>18.2</td>
<td>78,240</td>
</tr>
<tr>
<td>2003</td>
<td>21.6</td>
<td>41.5</td>
<td>14.5</td>
<td>15.3</td>
<td>86,190</td>
</tr>
<tr>
<td>2004</td>
<td>22.1</td>
<td>41.4</td>
<td>16.0</td>
<td>12.8</td>
<td>95,753</td>
</tr>
<tr>
<td>2005</td>
<td>20.5</td>
<td>40.4</td>
<td>17.5</td>
<td>12.9</td>
<td>104,688</td>
</tr>
</tbody>
</table>

The proportion of the adult population with highest educational qualification is considered to be important because a “high value-added economy” needs a workforce that “possess[es] the necessary skills and training to do what firms require”, to lift

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**Notes:**


34 *Labour Market Statistics*, various years.

35 Calculated from *Labour Market Statistics*, 2005, Table 11.05, p 142. The composition of the occupational major groups are described later in this section.

36 Ibid.
productivity and therefore growth.\textsuperscript{37} The percentage of the adult population aged between 25 and 64 years of age with a secondary school or post-school certificate or diploma as their highest educational qualification remained quite steady. While both figures expanded until 2004, 2005 shows the figures at a relatively low level for the time frame. However, the percentage of the adult population graduating with a degree expanded from 11.9 percent in 1998 to 17.5 percent in 2005. Much of this increase has occurred since 2003 when the average annual percentage change is closer to 1.5, whereas for previous years it was under 1 percent. This reflects the time lag necessary in finishing a degree.

In terms of employability a useful indicator is the percentage of high school students that leave school with no formal qualification. As Table 7.2 indicates, this figure has declined significantly over the period, from 18.1 percent in 1998 to 12.9 percent in 2005. However, again this is only part of the picture. While an initial overall decline occurred to reach 16.5 percent in 2000, the figure then increased again to reach 18.2 percent in 2002. On the surface, it appears that the overall decline occurred after 2003. This result must be interpreted with caution: the phasing in of the National Certificate of Educational Attainment (NCEA) has changed the conceptual framework underpinning assessment has changed somewhat,\textsuperscript{38} and has resulted in discontinuities with previous data, although it is unclear how significant these discontinuities are.

The \textit{Benchmark Indicators Report} uses hours of continuing education and training per adult and the provision of on-the-job training as measures of employees


improving their skill levels.\textsuperscript{39} As with many indicators provided in this report, a time-specific snapshot of the data has been provided for the purposes of the original benchmarking process at the date of publication, but updated figures are not readily accessible making it difficult to ascertain whether New Zealand’s position in relation to the indicator has improved. In this case, an alternative indicator can be found in industry training statistics. The Fifth Labour Government invested substantial funds in re-establishing industry training and apprenticeships. This is reflected in Table 7.2, showing that the total number of industry trainees more than doubled from 49,577 in 1999 to 104,688 in 2005.\textsuperscript{40}

Excluding the rightmost, the final three columns in Table 7.2 show net annual migration into and out of New Zealand by New Zealand Standard Classification of Occupations (NZSCO) major group level, as collected by Statistics New Zealand. The primary concern of the Government was to achieve a positive net migration result with respect to skilled workers. While the NZSCO is a crude measure for summarising the overall skill levels of the New Zealand labour force, and says very little that is helpful with respect to class position from a Marxist perspective,\textsuperscript{41} it is of some use in identifying that migration is class-based. In the first column, occupational major groups 1 and 2 represent legislators, administrators, managers and professionals, all of whom have advanced educational attainment and/or significant experience. In the third column, occupational major groups 8 and 9 are included,


\textsuperscript{40} \textit{Statistics New Zealand, Labour Market Statistics}, various issues. It should be noted, however, that the number of industry trainees was also increasing under National, from 18,733 in 1995 to 45,392 in 1998.

representing (broadly speaking) those in more routine and repetitive occupations, including plant and machine operators and assemblers, and elementary occupations. The middle column is the most inclusive, containing all those in between, including technicians, associate professionals, clerks, service and sales workers, agriculture and fishery workers, and those employed in the full range of trades. It includes a wide range of educational and vocational backgrounds, but most importantly for our purposes constitutes a rough approximation of skilled workers. The data in these columns clearly reflect the occupational bias of the immigration process. The GIF consultation documents express a preference for attracting highly skilled migrants. No mention is made of the flight of workers with lower skills: instead, this result, which is described as a “brain exchange rather than a brain drain”, is considered positive with room for improvement.\footnote{Growth and Innovation Framework: Benchmark Indicators Report, 2003, p 29.} This reflects attention to the supply side of the labour market rather than the quality of life of unskilled New Zealanders. Moreover, “brain exchange” means the pool of skilled workers available in the labour market is not increasing, which is problematic in terms of the GIF goals.
Table 7.3 provides a small selection of indicators used to measure global connectedness. Exports and imports as a percentage of GDP provide a starting point for considering the openness of the New Zealand economy to trade with other countries. Both exports and imports have been increasing as a percentage of GDP. Exports have increased overall since 1991. Although they were relatively stable from
1995 to 1998 hovering around 29.5 percent, they have since increased again and for the last five years in the table (that is, 2001 to 2005) are in the region of 32 percent of GDP. Imports have increased more substantially in comparison, from 24.24 percent in 1991 to 36.84 percent in 2005, although they increased more quickly between 2003 and 2005, by nearly 6 percentage points. The overall pattern is similar to that of exports: a small, steady increase to the mid-nineties, then overall stability to 1999-2000, then increasing again, possibly contributing positively to growth as a result of improving terms of trade experienced since 1999.

Exports of high and medium-high technology goods and knowledge-based services are measured in Table 7.3, by export market share within the OECD. Two points can be made: firstly, there has been a small but steady increase in the size of the OECD market share of all manufacturing exports. In 1997 they comprised a market share of 0.28 percent, but by 2003 this had increased to 0.34 percent. While being careful about the rounding issue mentioned above, even the most conservative estimation would suggest that the market share has increased overall to at least 0.30. In comparison, high-tech manufacturing industries have increased their OECD market share from 0.05 percent to 0.1 percent. Depending on the rounding, this may represent an increase or a decrease from 2003, but what we do know is that this certainly does not reflect an overall decrease, because to be rounded to 0.1 in 2004 the percentage of OECD market share must have been at least been 0.05, and could be any figure up to 0.14. In reality, it seems most likely that it is in fact around 0.1, following the previous

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47 This is for two reasons. Firstly, finding available data for a reasonable selection of years in the time period has proved difficult due to changing statistical reporting and publishing. Secondly, this allows us to compare New Zealand to the OECD and as the final goal is to improve New Zealand’s GDP per capita ranking within the OECD, market share and growing recognition of technology based exports seems appropriate in the context of the GIF. It should be noted that for 2004 and 2005, the figures here have been rounded to one decimal place, which makes direct comparisons with the earlier figures difficult.
trend. In other words, while the export market share to the OECD of the manufacturing industries remains very small as a percentage overall, the percentage OECD market share of high-tech manufacturing has been increasing slowly and steadily and nearly doubled in size between 2002 and 2003. Coincidently or not, this was immediately after the introduction of many export focused GIF policies.

Finally, Table 7.4 contains a substitute source of data for those indicators listed in the ‘other’ indicator category. This category also contains reference to macroeconomic stability, addressed earlier in this chapter. Here indicators have been limited to measures of regulatory transparency, competition and business entry costs. The World Bank Group’s “Doing Business” survey compares countries based on many of the indicators relating to regulatory burdens and other barriers to conducting

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**Table 7.4 Summary of Selected ‘Other’ Benchmark Indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>New Zealand’s ranking compared to OECD countries</th>
<th>New Zealand’s ranking compared to 178 survey countries 2008</th>
<th>New Zealand’s ranking compared to 178 survey countries 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Dealing with Licenses</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Employing Workers</td>
<td>4</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Registering Property</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>2</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>11</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>9</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>13</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

business. Table 7.4 provides rankings of the business environment in New Zealand compared to other OECD countries, as well as the 178 countries included in the survey. New Zealand ranks highly in many of the measures, ranking first in four out of eleven of the categories as compared to the OECD, and second or third in a further three of these categories. However, it should be noted that the 2005 Economic Indicators Report cites the same survey, and in 2005 for example, New Zealand was ranked third in the OECD for employing workers (or labour market flexibility). The limited availability of previous rankings from this survey makes it difficult to put this in historical context. However, overall the New Zealand economy is still considered to be ranked very highly in the OECD as a place to do business.

7.3 Innovation and Intellectual Property

This section is focused on indicators that reflect the nature and scope of R&D activities, technological change through invention and innovation and it’s commercialisation, including via intellectual property rights. Some of the key indicators listed in the GIF reports will be briefly examined, and then supplemented with other data to consider key issues this thesis raises. Indicators from the GIF documentation include the breakdown of R&D investment by sector and by type, intangible investment as a percentage of GDP, the innovativeness of New Zealand firms, the proportion of firms using the latest technology, and value-added in high-tech manufactures as a share of total gross value-added. The Progress Report includes patent data, research publications and innovation linkages.

49 Ministry of Economic Development, 2005, Growth Through Innovation, pp 100–1
The source of funding for R&D is important because the public and private sectors invest in such activities for different reasons and on the basis of different underlying assumptions. Figure 7.9 indicates the different levels of funding provided by firms, and by successive governments in CRIIs and higher education.

Figure 7.9  Expenditure on R&D by Sector
NZ$m (constant 1994 prices) 1994 to 2004

In its original form in a 2006 MoRST report the data in Figure 7.9 was presented in a graph depicting the combined increase in total R&D expenditure by using an area format rather than a line graph. This presents a somewhat misleading picture: while all three sectors does increase, the format makes the increases appear more substantial than they actually are. This is most misleading in the case of CRIIs because as Figure 7.9 indicates, CRIIs have had a relatively small increase in funding over this period, from NZ$283.8 million in 1994 to $326.9 million in 2004. In comparison, university sector funding of R&D has doubled over the period, from $173.6 million in

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53 Ibid. p 4.
The steady increase in university sector research funding halted in 2002, and between 2002 and 2004, expenditure declined slightly, to $383.8 million.

Business expenditure on R&D has also increased considerably, from $269 million in 1994 to $466.5 in 2004. However, while the increase in public sector funding increased at a relatively even pace, its private sector counterpart increased more sporadically: declining slightly between 1994 and 1996, and from 1998 to 2000, but overall increased to reach $403.2 million in 2002 and $466.5 million in 2004. The more volatile nature of investment in R&D in the private versus public sectors is a logical outcome of the nature of research carried out by each sector. The private sector is more likely to invest in R&D when there is a measurable payoff in terms of profitability, either by reducing production costs, increasing productivity or bringing a new product to the market that differs from its competitors. This is in contrast to government funded R&D that is seen as having a crucial function in providing for research that is considered in the public good but would otherwise not be carried out because of market failure. This is not always understood nor is there a formula to determine the optimum amount and type of public good research that needs to be carried out. However, the fact that government expenditure on R&D is justified with respect to a broader range of factors than that conducted by the private sector probably explains the greater stability over time. This extends into the different types of R&D carried out by each sector, as depicted in Figure 7.10.

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54 Ibid.
As Figure 7.10 illustrates, 63.6 percent of research expenditure in universities is directed towards basic research, and just over 30 percent is spent on applied research, with the ‘experimental’ category receiving just over 6 percent. A similar combination is reflected in CRIs, although they spend somewhat less on basic research (49.8 percent) and spend a greater percentage than universities and the business sector on applied research. Further evidence of this more applied focus of CRIs can be found in the comparison of the split between targeted and pure basic research: both prefer targeted over pure, but for universities the split between the two is 35.4 percent and 28.3 percent respectively, whereas for CRIs the split is more pronounced, with 40.6 percent and 9.3 percent respectively. The business sector spends a very low percentage of their overall expenditure on basic research (only 6.5 percent in 2004), but the bulk of their expenditure is on experimental research: in 2004, this constituted 57.2 percent.

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55 Ibid., sourced from Chart 2.8, p 24.
Table 7.5 Rate of Innovation or Innovative Activity for New Zealand Firms 2001 to 2005

<table>
<thead>
<tr>
<th>Industry Major Group</th>
<th>Industry Minor Group</th>
<th>Percentage of Firms that are Innovating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td></td>
<td>56</td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
<td>58</td>
</tr>
<tr>
<td>Forestry and logging</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td>Commercial fishing</td>
<td></td>
<td>62</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>Mining</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td>79</td>
</tr>
<tr>
<td>Food, beverage and tobacco</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td>Textile, clothing, footwear and leather</td>
<td></td>
<td>76</td>
</tr>
<tr>
<td>Wood and paper products</td>
<td></td>
<td>76</td>
</tr>
<tr>
<td>Printing, publishing and recorded media</td>
<td></td>
<td>85</td>
</tr>
<tr>
<td>Petroleum, coal and chemicals</td>
<td></td>
<td>87</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td></td>
<td>79</td>
</tr>
<tr>
<td>Metal products</td>
<td></td>
<td>78</td>
</tr>
<tr>
<td>Transport equipment</td>
<td></td>
<td>76</td>
</tr>
<tr>
<td>Electronic and optical equipment</td>
<td></td>
<td>74</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td></td>
<td>76</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td></td>
<td>83</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td></td>
<td>79</td>
</tr>
<tr>
<td>Retail trade</td>
<td></td>
<td>63</td>
</tr>
<tr>
<td>Accommodation, cafes and restaurants</td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>Transport and storage</td>
<td></td>
<td>67</td>
</tr>
<tr>
<td>Communication services</td>
<td></td>
<td>84</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td>79</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td>83</td>
</tr>
</tbody>
</table>

The percentage of firms reporting themselves to have been carrying out innovation activity was higher in 2001 than in 2003 and 2005 in almost all industries, as in Table 7.5. In fact in 2003 the reported rate of innovative activity declined substantially for most industry major groups, and for two of these, declined by more than half (in the construction industry, from 64 percent in 2001 to 25 percent in 2003 and in communication services from 84 to 41 percent). Subsequently, in 2005 the numbers rose again in almost all industry major and minor groups, although not to the levels reported during 2001.

The explanation for this apparent decline is explored in the 2003 report. The 2001 results were collected in a section of the Business Practices Survey (BPS) dedicated to innovation and it appears that 44 percent reported their innovation activities inconsistently between the two surveys, with respondents being far more likely to record their innovation activity in the BPS than the Innovation Survey in 2003, making direct comparisons difficult.\textsuperscript{57} While the discrepancy in the results may be attributable to methodological differences, in both 2003 and 2005 the survey instructions emphasised that innovation should be interpreted very broadly. This point was made particularly explicit in 2003, including both product and process innovations and

\textsuperscript{57} Innovation in New Zealand, 2003, pp 7-12.
essentially equating to anything significantly new to the respondent’s methods of conducting business, whether developed by the business themselves or simply adopted from elsewhere. The list of examples included is illuminating:

Figure 7.11 List of Examples of Innovation from the Appendix to Innovation in New Zealand 2003

- Change of materials in goods, like “respiration-active” textile material.
- New or improved software or PC networks improving the business’s internal performance.
- Inclusion of ecological products in the range of goods.
- A bank launching an insurance product.
- A significant variation to an existing product, e.g. the production of A2 milk.
- New technology that leads to more efficient routing and planning.
- Production of new plant or animal varieties.
- Laptops for sales people as direct acquisition support.
- Starch-based packaging materials, replacing plastic wrap and polystyrene packaging.
- Refrigeration for display shelves in supermarkets.

Despite this broad definition, it is still useful to consider the 2003 and 2005 results, because although direct comparisons are problematic, the data still provides some measure of innovative activity as perceived from a business perspective when there is little alternative data available. The main difference is that the 2003 figures are from a survey specifically focused on innovation sent to businesses with more than 10 employees and referred to the last three years, whereas the figures for 2005 come from the Business Operations Survey sent to those with 6 employees or more and referred to the previous 2 years. The lack of continuity is not conveyed as being as severe as that between 2001 and 2003 results (see Innovation in New Zealand, 2005, p 2).
Figure 7.12 Percentage of Businesses Engaged in Types of Innovative Activity by Industry Major Groups 2005

Types of innovative activity vary across industries. In the primary sector for example, both in agriculture, forestry and fishing, and mining and quarrying, more process innovations were reported (with 28 and 31 percent of firms respectively). Likewise, in manufacturing and the supply of electricity, gas and water, product innovations occur more often: 49 percent of firms in manufacturing, as did 40 percent of electricity, gas and water suppliers. Many of the service industries engaged more in innovative marketing activities (for example, accommodation, cafes and restaurants (37 percent), property and business services (32 percent), education (41 percent) and cultural and recreational services (42 percent). There are no set rules and this is only one sample of data, but it is logical that those producing physical goods might be more likely to engage in product and process related innovations than those in the

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*Innovation in New Zealand, 2005, p 32.*
service orientated industries. There appears to be no relationship between the nature of the industry and the relevance of engaging in innovative organisational or managerial processes, which are in the top three types of innovation activity for all industry major groups except for accommodation, cafes and restaurants.

The total expenditure on R&D activities by firms with 10 or more employees has more than doubled, from NZ$266 million in 1994 to $542.2 million in 2004. According to Figure 7.13 the most significant overall increase in R&D expenditure has been made by firms with more than 100 employees, from $176.7 million to $312.4 million over the period. However, both smaller categories also increased their overall R&D expenditure: firms with 10 to 20 employees more than doubled their expenditure from $20.6 million in 1994 to $40.5 million in 2004, while those firms with 20 to 50 employees had a much more remarkable increase, from $17.7 million in 1994 to $107 million in 2004. Those firms employing 50 to 100 employees fluctuated between $30.2 million in 1996 and $74.3 million in 2004.

Figure 7.13  Expenditure on R&D (NZ$m) by Size of Firm 1994 to 2004 (base year 1994)

The total expenditure on R&D activities by firms with 10 or more employees has more than doubled, from NZ$266 million in 1994 to $542.2 million in 2004. According to Figure 7.13 the most significant overall increase in R&D expenditure has been made by firms with more than 100 employees, from $176.7 million to $312.4 million over the period. However, both smaller categories also increased their overall R&D expenditure: firms with 10 to 20 employees more than doubled their expenditure from $20.6 million in 1994 to $40.5 million in 2004, while those firms with 20 to 50 employees had a much more remarkable increase, from $17.7 million in 1994 to $107 million in 2004. Those firms employing 50 to 100 employees fluctuated between $30.2 million in 1996 and $74.3 million in 2004.

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61 Research and Development in New Zealand: A Decade in Review, 2006, p 36 (compiled from accompanying Statistical Tables, p 10).
Finally, Figure 7.14 demonstrates that business size does not appear to relate directly to the types of innovative activity firms engage in. There is a positive correlation between the number of employees a firm has and their overall capacity to engage in innovative activity, which appears to apply to product and process innovations as well as innovative organisational and managerial processes. Interestingly, 46 percent of firms with 100 or more employees reported that they engaged in process related innovation: perhaps they are more likely to engage in process innovations than smaller firms because of the scale of the production process and economies of scale. However, the significance of this data should not be over-exaggerated, because this is a snapshot in 2005 and these results may not persist over time. A final point: the use of innovative marketing methods appears to diverge from other types of innovation as the number of employees increases. It is possible that this reflects that there is a basic

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62 Innovation in New Zealand, 2005, p 32.
level of marketing that needs to be done but at some point a saturation point is reached, which might occur more readily for a larger firm because they are more likely to have an established market presence and greater available resources.

There are important limitations with the benchmark indicators. These include those identified in the Benchmark Indicators Report itself: that visible change in these indicators takes time to appear, and that the attribution of changes in indicators to specific policies is uncertain.63 Both of these points are clearly valid. Further limitations fall into three categories: 1) the insufficient availability of data over the long term; 2) the fact that the only available data comes from government agencies who are charged with the task of evaluating the effects of Government policy, and for that reason there may be bias in the process; and 3) that the data reports on a limited set of indicators that reflect (at least to some extent) the terms on which the policy should be evaluated according to the Government, rather than in broader terms such as those employed in this thesis. Of these limitations both 2) and 3) were to be expected, while 1) is not surprising, but presents unique difficulties. In this respect, the most surprising is that while the Benchmark Indicators Report states that “as implementation continues there will be an increasing emphasis on evaluation of the framework. These indicators form part of this evaluation effort.”64 Since then, the only other report that has been published is the 2005 Growth Through Innovation: Sustainable Economic Growth For New Zealanders: Economic Development Indicators, which is organised around different topic headings, making comparison difficult.

64 Ibid., p 8.
This is because the GIF as such was abandoned in 2006, with the government preferring to reframe the economic strategy as one of ‘Economic Transformation’. According to the then Minister of Economic Development, Jim Anderton:

The Growth and Innovation Framework was a symbol of trying to transform the economy. In the end a decision was made that we weren’t adequately communicating that with people. So in other words, this thing was called GIF, what does GIF mean, all these acronyms and in the end it was decided that we’d spell it out more clearly like ‘economic transformation’. So that’s where the change came in. It was made because it was felt that there was not enough communication that was effective and understanding of what GIF was. My own view is that that latter change to economic transformation wasn’t as successful as people had hoped for actually.65

Although the GIF was formally abandoned, and subsequently the collection and publication of the GIF’s benchmark indicators in this form ceased, the new framing of the policy agenda did not equate to a major departure from the GIF.66 In terms of the continuity of data, one senior policy advisor at MED described the process as constantly evolving:

We did, early on, actually fund quite a lot of new statistics. I remember because the first GIF things were, some of the bids were all around labor market statistics, being able to integrate different statistical data sets and have some of the tools to bring those things together to look at connections between indicators and so on. And again the platforms were much more sophisticated of their kind than we had previously. So there was all of that. But anyway there was so many different things that kind of came out of it. Lots of small things, lots of things that were being piloted and experimental, and they kind of died. But... because there was a kind of quest for novelty we were learning something new every year at budget

65 Anderton, J., Interview with the author (recorded and transcribed), 20 October 2010.
66 Elsewhere in this thesis it has been mentioned that the Fifth National Government continued to follow a similar agenda, within which the establishment of the new Ministry for Science and Innovation (from MoRST) was a key feature (as of 1st July 2012, it was subsumed into the Ministry for Business, Innovation and Employment).
time. We lost focus... on what were the really big things to focus on... and what was most material, making a material difference. So I think we were quite frustrated... we were just playing at the margins and they were kind of good things but we were never going to make a difference on a macro scale.\textsuperscript{67}

Critically, while MED continued to use some of the original benchmark indicators, it abandoned others and reported on new indicators which prohibited the study of indicator context over time. Where possible, this chapter seeks to remedy this situation by providing more long term data (even if only for a short time frame). This is also limited by the availability of data from Statistics New Zealand, as many useful data series have been discontinued or changed. This is partly because the MED commissioned some of the statistics collected.

An example is the very promising surveys on innovation, which resulted in three published reports entitled \textit{Innovation in New Zealand} (for 2001, 2003 and 2005).\textsuperscript{68} Even though these reports were established to monitor innovative activity in recognition of its importance to the economy and to government policy, these reports contain many statistical tables that cannot be compared from one year to another because the data is either inconsistently collected or inconsistently presented. As discussed earlier in this section, the data collection methods varied for each of these reports. The 2001 report was based on the Business Practices Survey. The 2003 report noted inconsistencies and recommended not directly comparing the 2001 and 2003 data because the 2003 report was based on a different questionnaire, the Innovation Survey. Then, in 2005, Statistics New Zealand introduced a new questionnaire incorporating a section on innovation called the Business Operations Survey. Quite apart from the innovation data, the

\textsuperscript{67} Interview between senior MED policy advisor and author (recorded and transcribed, off the record), October 2010.
Business Practices Survey (available only for 2001) and the Business Operations Survey (available for 2005, to continue) are inconsistent throughout. These limitations are reflected in the data presented in this and previous sections.

Figure 7.15 illustrates recent trends in the receipt of patent applications to the Intellectual Property Office of New Zealand (IPONZ). Standard and provisional applications are solely for patent protection within New Zealand. Provisional applications remained comparatively steady over the period, while the number of standard applications dropped considerably, from 1,621 in the year ending June 1995 to 579 in 2002. However, this decline was partially offset between 1999 and 2003 with a more moderate and shorter term increase in provisional applications, to peak in 2003 at 1,632 applications. Standard applications refer to those where the entire application process is carried out at the beginning of the process, whereas provisional applications

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can be lodged in advance of full development of the innovation, allowing for the establishment of a priority date. Each is more useful at different stages of the development and commercialisation of the innovation. A shift towards provisional rather than standard applications may reflect less certainty about the profitability of innovations during the late 1990s and early 2000s. If that is the case, then the more recent rise in standard applications since 2002 but particularly in the year ending June 2006 (with 1,095 applications) may reflect an increase in confidence in the context of the strongest cyclical recovery in economic activity since the collapse of the post-war long boom in the mid 1970s.

PCT international applications refer to those applications filed in New Zealand under the Patent Cooperation Treaty, by New Zealand residents or nationals, allowing for the coordination of the application process between member countries, while member countries still retain governance over intellectual property rights within their own borders. The number of PCT international applications in New Zealand has doubled over the period that figures are available for, from 159 applications in the year ending June 1998 to 361 in the year ending June 2006.

This demonstrates that innovators are finding it increasingly relevant to pursue a monopoly on their invention in markets other than New Zealand. Given the expense in pursuing such protection, it seems reasonable to assume that this represents at least an intention to introduce the innovation to those international markets. With respect to the objectives of the GIF, this would be a positive result. However, it is unlikely that


this outcome is directly attributable to the GIF given that just under two thirds of this increase occurred between 1998 and 2002, over which time applications rose from 159 to 290, whereas between 2002 and 2006 the increase was only 71, from 290 to 361 applications, reflecting a general trend upwards rather than a GIF-induced increase.\(^{72}\) In the year ending June 2006, the total number of all applications reached 2,798, the highest number since 1995 when applications originating within New Zealand reached 2984.

While trademark registrations significantly exceed the number of patent applications and design registrations, they reflect the least innovative activity. The function of trademarks is to protect a brand as part of a marketing strategy. This extends beyond the use of logos and phrases, potentially incorporating any aspect of the total ‘package’ of a product as it is presented on the market. For example, Cadburys Confectionary Limited have successfully trademarked the packaging of chocolate in purple wrappings, arguing that it has established connotations with consumers that is inextricable from the experience of eating their chocolate. It is argued that if another chocolate manufacturer packaged their products in purple wrappings and introduced it to the same market, then they may unfairly capitalise on the branding work already done by Cadburys.

In this respect, trademarks incorporate innovation as it applies to the branding process. This reflects the use of the term ‘value-added’. To the extent that the branding itself helps to market the product and make it more attractive to consumers, it is argued that this accumulates value over and above what is initially present in the

\(^{72}\) Report of the Commissioner of Patents, Trademarks and Designs to the Minister of Commerce (Annual Report), various issues.
physical good: the chocolate. The logic of trademarks is congruent with the ideological underpinnings of the GIF

**Figure 7.16 Number of Applications for Trademark Registration and Renewals of Existing Trademarks 1997 to 2006**

Since 1997, the number of applications to register trademarks peaked at 22,771 in 2000, and has since trended downwards to 16,604 in 2004, increasing slightly to reach 17,754 in the year ending June 2006. The number of renewals has steadily increased since 2000, from 6,284 existing trademarks to 10,877 renewals in six years. As with other types of intellectual property, trademarks are limited in duration on the premise that they only exist to protect the owner’s interest in the limited term: that is, the period in which it is expected that the innovation will generate the most income. In the case of

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Did it Work? Economic Outcomes

trademarks, they can be renewed, but it is reasonable to assume that most trademark owners would not bother doing so unless the trademark is still useful in protecting their commercial interests. This increase in renewals could reflect a growing reliance on, or awareness of, the importance of branding to profitability.

An important qualification needs to be added here. While branding is construed in the orthodox literature on innovation and marketing as ‘adding value’ to a physical good through intellectual or creative effort, the use of the term value needs to be treated with some caution. In line with the subjective preference theory of value, the value added in this case is inseparable from the process of consumption, and appears to be measurable through the mechanisms of the market.\(^{75}\) However, this is still accounted for as contributing to economic growth.

**Figure 7.17  Number of Applications for and Successful Design Registrations 1997 to 2006**\(^{76}\)


As Figure 7.17 depicts, there has also been a sharp increase in the overall number of applications received for the registration of designs. Between 1997 and 2003, IPONZ received between 850 and 937 applications for design registration every year, with the exception of 2000, where the number of applications reached 976. In contrast, since the year ended June 2004, the number of applications has exceeded 1,300, with the most recent year, that ending June 2006, attracting 1,448 applications. The number of actual registrations shows a less dramatic increase, although still trends upwards. From June 2003 it has consistently been at a minimum in the high 800s, while also reaching 1,043 and 1,146 in the years ending June in 2004 and 2006 respectively.

There is a possible link between these figures and the GIF emphasis on creative industries, in particular with respect to the task force initiatives in design, as they are outlined in the MED’s report on Sector Taskforces.\textsuperscript{77} These initiatives aimed to reduce infrastructural barriers and facilitate the commercialisation process by linking those in the industry to each other and to potential markets for their work, through the establishment of a website, directory and conference. However, many of these elements of sector targeting relating to design were not implemented immediately, and none of the initiatives in this sector have been directly concerned with seeking intellectual property protection. The connection with the GIF is tenuous, although the increase in design application and registration is still significant.

Over the studied period, there are clear indications that there was a general increase in innovative activity in New Zealand. It is not possible to attribute this directly to the GIF, but nonetheless it is still a central finding. Before we analyse the impact that this might have had on New Zealand’s recent economic performance, it is

important to briefly examine the contributing factors to innovation activity on behalf of firms.

Table 7.6  Sources of Information Used by Innovating Business (for the last two financial years at August 2005)

<table>
<thead>
<tr>
<th>Source of Information</th>
<th>Percentage of Innovating Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing staff</td>
<td>77</td>
</tr>
<tr>
<td>Customers</td>
<td>64</td>
</tr>
<tr>
<td>New Staff (appointed in the last two years)</td>
<td>54</td>
</tr>
<tr>
<td>Conferences, trade shows or exhibitions</td>
<td>51</td>
</tr>
<tr>
<td>Professional advisors, consultants, banks or accountants</td>
<td>50</td>
</tr>
<tr>
<td>Competitors and other business from the same industry</td>
<td>48</td>
</tr>
<tr>
<td>Suppliers</td>
<td>47</td>
</tr>
<tr>
<td>Books, journals, patent disclosures or internet</td>
<td>46</td>
</tr>
<tr>
<td>Industry or employer organizations</td>
<td>32</td>
</tr>
<tr>
<td>Other business within the business group</td>
<td>29</td>
</tr>
<tr>
<td>Business from other industries</td>
<td>22</td>
</tr>
<tr>
<td>Government agencies</td>
<td>11</td>
</tr>
<tr>
<td>Universities or polytechnics</td>
<td>11</td>
</tr>
<tr>
<td>CRIs (CRIs), other research institutes and associations</td>
<td>8</td>
</tr>
</tbody>
</table>

Those businesses that do innovate acknowledge in the 2005 survey that staff are the most important sources of information leading to innovation: in Table 7.6, 77 percent of innovating firms report using existing staff. A further 54 percent of innovating firms reported using newly appointed staff (in the last two years) as sources for information. While this data cannot be directly compared to previous reports because of collection and presentation inconsistencies, this is backed up in the 2003 report, with 65 percent of innovating businesses reporting that they considered internal sources of information including employees as “very important” and a further 26 percent considered internal sources as “somewhat important”. Interestingly, when controlling this figure for firm size in terms of numbers of employees, the larger
the number of employees, the greater the number of employees, the more likely the firm is to explicitly identify employees as an important source of innovation.\(^{80}\)

### 7.4 Explaining the Outcomes

Economists explain the relationship between innovation and economic performance in different ways. Mainstream neoclassical economists are primarily concerned with per capita income as a measure of economic living standards, and the Fifth Labour Government assigned per capita GDP as a high level primary indicator for the purposes of assessing the effectiveness of the GIF. As we saw in Figure 7.2, the objective of restoring New Zealand’s ranking to the top half of the OECD by 2011 has not been achieved, although it is acknowledged that this was overly ambitious.\(^{81}\)

The most useful way of summarising New Zealand’s recent economic performance in mainstream commentaries and in the official publications is that the types of policies incorporated within the GIF are on the right track, with some room for refinement. The notion that there is a positive relationship between innovation and economic growth still permeates the literature of government agencies. In order for this to occur, it is argued, the right conditions need to be in place, including those set out in the first section of the GIF: “Strengthening the Foundations”. For example, the 2005 *Briefing to the Incoming Government* cites the strong macroeconomic outcomes since the 1990s (including low inflation, stability in prices and output levels, the strong fiscal position and reduction of public debt) as being directly attributable to

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\(^{80}\) Ibid., p 79.

\(^{81}\) It is important to note that the restoration of New Zealand’s ranking is not simply dependent on the performance of the New Zealand economy, but also on that of other OECD countries. Not meeting this objective does not in itself mean that the New Zealand economy has been performing badly; it simply means that it has not performed at a level significantly higher than other OECD countries.
sound macroeconomic management. In fact, almost every account of New Zealand’s post-1999 economic performance from a neoliberal perspective begins by endorsing the macroeconomic framework.

In this context, the role of innovation is regarded as central to not only economic growth, but also to social cohesion and well-being. According to Steve Maharey (then both Minister for Social Development and Employment and Minister for Research, Science and Technology) in 2005:

I want to ensure that our RS&T system is robust and successful and that innovation is applied throughout society – in caring for the environment, in fuelling economic growth, in enhancing New Zealanders’ health and lifestyles and in improving the way we live and work... A strong focus on research, science and technology is central to the future wellbeing of New Zealand. Scientists build the knowledge that adds value to all dimensions of our society.

The central role of innovation is endorsed by the OECD, citing the obvious as well as the more elusive positive effects of technology change: “there are important interactions between public and private R&D activities as well as difficult-to-measure benefits from public R&D (e.g. defence, energy, health and university research) from the generation of basic knowledge that provides technology spillovers in the long run.” There was broad consensus between government agencies, the Fifth Labour Government itself and the OECD that policy should provide the environment in which market forces can operate to deliver innovation and technological change,

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driven by the private sector who resolve the challenges posed by the market. This is in
direct contrast to the way in which government intervention (reframed as poor
economic management) would deliver a lack of incentives:

One reason why pro-competitive regulations help growth is because they
promote innovation. Product market regulation is good for innovation if it
provides intellectual property rights that induce innovation... Labour
market regulations are also found to influence innovation... For example,
innovation-driven changes in the job skill mix often imply hiring and firing
of workers, which is easier with less statutory job protection.\textsuperscript{86}

This interpretation identifies some key elements of the neoliberal explanation of the
economic performance of the New Zealand economy since the early 1990s. The
available commentary by government agencies places more emphasis on policy than
on explanations: these need to be unpacked. As outlined in Chapter Two, the mid-
1970s was characterised by the onset of economic crisis brought on by what some
Marxists have called the “profit squeeze”. More mainstream commentators have also
looked to production for explanations and solutions to the problem of declining
profitability, hence the focus on supply-side policy market orientated policy and the
centrality of productivity as a high level indicator in the GIF example.

Despite the collection of an extensive and broad range of indicators, in which we
have seen incremental although largely modest improvements, labour productivity is
the most cited indicator requiring improvement. According to Prime Minister Helen
Clark:

This week the Economic Indicators Report 2005 will be released. The good
news is that on a number of key indicators our performance is already

\textsuperscript{86} Ibid., p 18. It should be noted that the second part of this quotation is in the context of a discussion
which is applied to some, not all, industries. In other words, while flexible labour markets are more
important in some industries there may be other industries in which instead of responding to
technological change by hiring and firing workers, they might be retrained.
good, and on a number it’s improving. No indicator shows deterioration. But the report also tells us where our performance needs to improve, most critically in labour productivity and in our levels of innovation. Innovation is seen as crucial to driving improvements in productivity and therefore economic growth from both a technological change point of view (through competitive edge in value-added products) and through improving the efficiency of labour. As Figure 7.8 demonstrates, labour productivity is included as a high level indicator for the purposes of evaluating the GIF, although it was chosen over total or multi-factor productivity for reliability and availability reasons (the latter would have taken account the more direct effects of technological change). Even though at face value it is possible to look through the lower level indicators and see ongoing incremental improvement, this high level indicator (which the lower level indicators effect) did not improve at a rate satisfactory to the Government and its agencies.

Essentially, the neoclassical model of economic growth states that while growth comes from technological change, it does so by improving and increasing overall factor productivity. Improvements in human capital stock and performance (as a result of acquired skill and learning by experience) are crucial, it is claimed, as well as the positive externalities arising from the development and adoption of technology. This approach to economic growth is reflected in the GIF emphasis on developing the skill base of the labour market and on innovation itself, but does raise the question of the nature of the role played by other factors as interpreted by MED and the neoliberal perspective. Figure 7.8 portrays all five sets of indicators as directly feeding (by no means equally or in a functionally similar way) into productivity and therefore

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economic growth. It would perhaps be more accurate to model innovation and the increasing stock of knowledge (sometimes conceptualised as human capital) as the central factors to increasing productivity, with the others constituting the context in which this occurs. Ultimately, macroeconomic stability, regulatory transparency, competition and business entry costs are acknowledged by neoclassical economists and government advisors as fostering innovation by providing an environment conducive to it, rather than participating directly in it. Likewise, with respect to investment levels, this is an issue of providing critical mass rather than having an immediate and direct effect on economic growth.

Perhaps the most comprehensive insight into the neoclassical argument for how innovation relates to economic growth (and thereby, what subsequent policies should be prescribed) can be found in Treasury working and briefing papers: one example of which was published in 2004.\(^89\) It argues that the primary explanation of New Zealand’s recent economic performance is the impact of external variables on labour productivity and labour utilisation. From this perspective, one of the external factors is the role of institutions, as they influence the creation of incentive structures (in other words, they provide an environment which encourages activities conducive to growth, such as participation in the labour market). Although Treasury argues that labour utilisation rates are relatively high in New Zealand by OECD standards,\(^90\) and particularly with the reduction in unemployment that occurred over this period, it still suggests there is room for improvement:

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\(^90\) Ibid, p 20.
Sluggish productivity growth is partly the flipside of the impressive gains in employment and participation rates. Firms have used more, relatively inexpensive, labour to meet increased demands. Until recently, there has been a relatively slow rate of investment in capital across the economy. To sustain and enable further growth the firm-led change in these dynamics will need to continue. Higher rates of productivity are likely to occur as employees gain greater skills and knowledge within the roles they now fill.\textsuperscript{91}

The OECD agrees with this assessment, arguing that raising labour force participation taps into previously under-utilised human capital, and makes the most of government investment in education. This provides a strong motivation, purely on economic grounds, for providing support for women to re-enter the workforce:

\begin{quote}
In 2001, some 20\% of all 25 to 49 year old women (including those without children) with advanced vocational or degree qualifications were not in the labour force at all, while only 60\% were working at least 30 hours per week ... As an individual’s human capital deteriorates the longer the absence from the workforce, drawing these well qualified women back into the labour market more quickly would raise the effective human capital stock of the country. Giving them more opportunities to consolidate and deepen their skills through promotion or increased work responsibilities could provide a boost to productivity growth on top of the increase in GPD per person that would be obtained from increased hours alone.\textsuperscript{92}
\end{quote}

In light of this, it is not surprising that both the OECD and Treasury support sustained and increased investment in human capital and ensuring that there are strong incentives in place to encourage labour force participation. This extends to policies like Working for Families, which indirectly subsidises wages for employers.

Finally, it has been argued in the mainstream business publications that investment levels are low, and while the MED has reported that the percentage of businesses investing in expansion is increasing, the New Zealand economy is described as “capital shallow”.\(^{93}\) This has been attributed to the economy’s size, the solution being to further internationalise. As Skilling puts it:

> the international evidence shows that small, distant countries are much less likely to receive international flows of capital than are larger, more proximate countries. The implication is that New Zealand is not well placed to receive ongoing flows of FDI [foreign direct investment] and equity investment into the productive economy.\(^{94}\)

Importantly, it is not the quality of financial markets that are in question. According to OECD standards, New Zealand’s scores “extremely well” on indicators of banking and securities regulation, and the legacy of financial liberalisation during the 1980s is acknowledged.\(^{95}\) Rather, it is a problem of reaching critical mass: the capital market is considered to be relatively undeveloped and lacking in breadth and depth. One way to begin to overcome this problem is to encourage increasing personal saving and financial literacy, and the new KiwiSaver programme, introduced in July 2007, is considered an important step in this direction.\(^{96}\)

One interesting point illustrating the class-based nature of state power is that in many ways, policy prescriptions can reflect specific interests, even with broad paradigmatic consensus. If one reason for high labour utilisation rates is that firms are

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\(^{95}\) OECD Economic Survey of New Zealand 2007, Chapter 3.

\(^{96}\) See for example, OECD, 2007, OECD Reviews of Innovation Policy: New Zealand (advance copy), p 215; OECD Economic Survey of New Zealand 2007, Chapter 3. KiwiSaver is a non-compulsory long-term savings scheme, administered via the taxation system. It incorporates contributions from the government and the phasing in of compulsory contributions by employers of those enrolled
using relatively inexpensive labour power to increase their production rather than investing in capital goods (including but not limited to improved machinery), there could be an argument for developing policy that encourages (or at least, does not hinder) the growth of wages and salaries, to encourage a more balanced mix in the capital to labour ratio, potentially resulting in capital deepening and improved rates of investment: political forces are at work ensuring this is unlikely to happen. However, from a Marxist perspective, a rising rate in the organic composition of capital would undermine profitability.

It is necessary to emphasise that not all mainstream economic commentators agree on the role of Government economic management and policymaking with respect to achieving the desired level of per capita economic growth. Even amongst those that broadly subscribe to neoclassical views of the economy, there are differences in how they have interpreted and responded to the Fifth Labour Government’s policy agenda. For example, Sautet argues that the primary reason that New Zealand has not restored its OECD ranking is because since Labour was elected in 1999, instead of extending the neoliberal reform project, their core policies have constituted a step back.97 His argument follows that Ireland has extended their neoliberal reform project beyond that of New Zealand and that Ireland’s economic performance is a direct result of the reform process:

According to economist Colin Lynch, no magic recipe explains Ireland’s success. Rather, it springs from a series of reforms that taken together changed the business environment in a very favourable way...the massive increase in economic freedom in the past twenty years is the best overall explanation of the Irish miracle.98

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98 Ibid., p 581.
From this perspective, Sautet applauds the efforts of New Zealand governments from 1984 to 1999 and argues that some of the small changes in public policy making since 1999 need to be reversed. He includes the GIF as an example of the government drifting towards more regulation, and therefore as being unfriendly to entrepreneurs. However, this perspective sees the GIF as more of a departure from the neoliberal project, whereas this thesis has made the case that the approach of the Fifth Labour Government has constituted a modified variant of neoliberalism. In light of Ireland’s post-2010 difficulties Sautet’s interpretation needs to be treated with some caution at the very least.

In sum, there is general agreement amongst mainstream neoliberal commentators that the economic growth occurring since the 1990s is largely the result of the post-1984 reform process, that the foundations that these reforms have set in place should continue largely unchallenged, and that the commitment to improving the innovativeness of New Zealand firms is central to lifting productivity. Key areas for improvement are increasing the size of New Zealand’s capital market via the increasing connectedness of the economy to international markets and raising the level of saving. In other words, recent economic growth has been strong, but could be stronger, and in the long term can only be increased and sustained by improving the environment for innovation as a driver of productivity.

From a Marxist perspective, similar observations could be made although with a more pessimistic long term outlook. As outlined in Chapter Two, Marxist interpretations of the onset of crisis in New Zealand (and internationally) saw the primary explanation being an increase in the organic composition of capital that could

99 Ibid., p 589. Sautet does not discuss the GIF in any detail, which may reflect that he is unfamiliar with it.
only be offset by increasing the rate of exploitation. Cochrane’s study of New Zealand points to crucial periods of neoliberal reform as corresponding with a temporary but sustained increase in the rate of profit. The rapid opening up of the New Zealand economy to overseas markets led to an influx of capital and a rapid increase in unemployment in the mid-to-late-1980s, while the introduction of the Employment Contracts Act in 1991 decimated rights of workers and presumably contributed directly to an increase in the rate of exploitation: according to Evans et al, it played an instrumental role in increasing the rate of labour productivity. The increase in the rate of profit was correspondingly sustained until 1994. The reforms were aimed at restoring the rate of profit through increasing productivity and the global competitiveness of the New Zealand economy. While most neoliberal authors celebrate the outcomes of the reforms, there are some authors who argue they have not been as successful at achieving the economic and social outcomes expected.

Unfortunately, updated studies operationalising Marxist economic categories have not been carried out at the time of writing, and are beyond the scope of this thesis. However, drawing on these studies and available orthodox indicators allow for two tentative observations to be made in light of the earlier studies and the mainstream commentary on the New Zealand economy. Firstly, as Cochrane points out, the relationship between productivity and the real wage rate, and their coincidence is illuminating. As outlined by Cochrane, the ratio of productivity to the

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101 This is most clearly illustrated in Chart Seven of Cochrane, 1997, Provisional Estimates of Some Marxian Econometric Variables, p 144.
102 Dalziel, P., 2002, “New Zealand’s Economic Reforms: An Assessment”, Review of Political Economy, Volume 14, Number 1, pp 31 — 46. This paper is more pessimistic, arguing that the reforms did not meet the expected objectives, and cites a loss of real per capita GDP after 1987, the rise in unemployment after 1988, a decline in labour productivity after 1992, and the decline in per-capita real income of low-income households since 1984.
103 Ibid., pp 114–2.
real wage rate in consumption terms can be used as a proxy for the rate of exploitation.\textsuperscript{104} While the ratio of productivity rates to the real wage rate is not available, Figure 7.18 is helpful for explanatory purposes:

\textbf{Figure 7.18  Cumulative Percentage Increases in Labour Productivity, Inflation and Average Hourly Earnings for Wage and Salary Earners 1999 to 2007}\textsuperscript{105}

Average hourly earnings for wage and salary earners have increased substantially over the period from 1999 to 2007: the total cumulative effect being an increase of 38.85 percent. This series is not adjusted for inflation however: over the same period, inflation has cumulatively risen 22 percent over the period, offsetting more than half of the increase in the nominal average wage rate and thereby some of the workers’

\textsuperscript{104} As noted in Chapter One, there are limitations with thinking of exploitation as related to consumption alone, rather than in terms of the appropriation of surplus value defined more accurately in terms of the production process.

\textsuperscript{105} Average hourly earnings for wage and salary earners series comes from the \textit{New Zealand Incomes Survey}, various years, Table 10. Labour productivity series is from the \textit{Industry Productivity Statistics (ANZSIC06)} dataset, accessed 2 July 2013 at \url{http://www.stats.govt.nz/infoshare/}. Inflation series is from \textit{Key Statistics} series, Statistics New Zealand, Wellington, compiled from various issues, Table 6.03.
increased purchasing power generated by the increase in hourly earnings. Labour productivity has increased at a slower rate: cumulatively, it has increased by 17 percent over the period from 1999 to 2007. This brings us back to a point made in section 1.1.1 of the thesis: that wages can be considered in terms of either consumption or production terms. It is common to consider wage increases in terms of consumption, hence the attention afforded to the rate of inflation from a wage bargaining perspective. However, from a production point of view, wage increases represent increased cost that can be offset by increased productivity. While productivity measured above as output per unit of labour cannot be directly offset against hourly earnings because these are different measures, the general principle that the combined cumulative effect of increased labour productivity and rising inflation have exceeded the cumulative percentage increase in average hourly earnings is noteworthy. It does not directly prove anything, but in light of Cochrane’s observations in relation to the real wage rate, labour productivity and profitability relationship it leads to a possible interpretation that over the period, there was a partially successful attempt to revive economic growth through policy settings to stimulate innovation and global competitiveness through the retention of a variant of neoliberalism, but that the attempt has been circumscribed to an extent by the ongoing incapacity to revive profitability to the level of the post war long boom and to a lesser degree, the small-scale concessions to the working class that have been made to the working class through the first two terms of the Fifth Labour Government: most notably, the significant increases in the minimum wage. This should not be over-emphasised: policies such as Working for Families have also been supported by employers that help subsidise what are already considered relatively low wages. Additionally, the capacity of unions to engage in industrial action has not been
restored with the repeal of the Employment Contracts Act, and industrial action statistics remain historically low.\textsuperscript{106}

Conclusion

The objective of this chapter has been to assess the economic outcomes of the GIF, and to do so a wide range of economic indicators has been employed. The most obvious starting point was the primary indicator used by the Government as an index of living standards, per capita economic growth, given that New Zealand’s declining ranking within the OECD on per capita GDP terms was a cause for concern for the Government. While higher levels of economic growth were realised, they have not been significant enough to result in the restoration of New Zealand’s OECD ranking to the top half of the OECD by 2011, the GIF target. Additionally, this needs to be kept in historical perspective: following the post-war long boom the economy entered a period of crisis from 1975 to 1999, from which there was to some degree a revival. However, this revival in economic growth occurred during a period of relatively low inflation, a significant decline in unemployment, and a favourable increase in the terms of trade index.

Overall, the New Zealand economy performed quite well at a macroeconomic level. However, to measure the success of the GIF, an extensive series of benchmark indicators were defined. Despite problems with the continuity of data collection according to these indicator categories, it appears as though there has been continual incremental improvement in these areas over recent years. To get a more complete

picture with respect to innovation, it is necessary to look at measures of innovative activity by firms in more detail. Section 7.3 provides an overview of the nature of innovation in New Zealand, including the different types of R&D engaged in by the public and private sectors respectively, and the types and numbers of innovative activities being engaged in by different industries. Importantly, the larger the firm, the more likely it is to be involved in R&D and innovative activities, although at the same time, the percentage share of total R&D carried out by the largest firms is declining as those in smaller firms are engaging in more R&D activities.

Whether or not the GIF is the reason for moderately successful economic growth over the period, it appears that there is a growing recognition of the importance of R&D activities and innovation by firms, and of the role intellectual property rights play in both protecting these activities and promoting firms less tangible assets. It is also clear that employees are recognised as the most important source of ideas and are seen as having a decisive impact on a firm’s ability to be innovative, and the larger the firm the more this is held to be true, as is more innovation practised.

Most mainstream commentators agree that innovation still plays a central role in economic growth, and that the GIF policies have been on the right track in terms of encouraging innovation. Any criticism from this quarter could be appeased by minor modifications of the framework. This is endorsed by the OECD, especially given the adoption of a market based, incentives approach, steered by a Government which satisfactorily delegated the necessity to ‘pick winners’. Overall, the macroeconomic framework and competitive microeconomic environment are considered to be a good foundation for a period of economic growth and declining unemployment. According to this perspective, the remaining task is to focus on lifting productivity. Policies
argued to directly result in this outcome include continuing to invest in the
development of human capital (such as further education, literacy and industry
training) and ensuring that there are adequate incentives to encourage participation in
the labour market. In addition, there is the challenge of increasing the critical mass of
investment capital available.

This landscape is also viewed briefly though a New Zealand literature that exists
from a Marxist perspective. This literature suggests instead that, underlying the recent
recovery in economic growth, are powerful political and economic forces. The
neoliberal experiment allowed an increase in the rate of exploitation of the working
class, leading to lower than expected living standards and compromised class
consciousness during the 1980s and 1990s. It is fair to say that the GIF may very well
have directly and/or indirectly contributed to the ongoing increase in innovative
activity and the growing awareness it plays in profitability and developing a
competitive edge amongst firms. In the short term this may have indirectly
contributed indirectly to a satisfactory level of economic growth. Business support, as
tactfully, and concretely, practised in the GIF is a negotiation with the underlying
structure, the balance of class forces. In short, the modified variant of neoliberalism
that the GIF has constituted has probably at least maintained the level of exploitation,
tempered by concessions to the constituency in the wake of a more extreme variant of
neoliberalism that preceded it. However, these suggestions are tenuous in the absence
of data that formally operationalises Marxist economic categories.
Chapter Eight

The Impact of the GIF on Income Distribution and Social Outcomes: Winners and Losers?

“Ten years ago, we were all drinking cask wine at $7.50 a unit. Now, some of us are drinking Felton Road chardonnay at $65 a bottle.”

Colin Webb, Tertiary Education Commission, explaining “value added” industries to an audience of sociologists.¹

Introduction

The GIF was promoted as an economic development strategy, but the Fifth Labour Government described economic and social policy as inextricably linked. While the GIF included reference to social policy, the new social development approach was consistent with the neoliberal supply side approach to rejuvenating the profitability of the economy, reflected in a continued reliance on market factors and

outcomes, and subsequently the variant of neoliberalism employed under the Fifth Labour Government constituted a softening rather than a departure of the regime under the Fourth Labour and National governments between 1984 and 1999. In this chapter, I investigate the redistributive and other social outcomes of the GIF. Redistributive outcomes are important because while the GIF does not promise a decrease in inequality, it does at least promise it will benefit all New Zealanders, and while it is not explicitly stated that they will equally benefit, this is worthy of interrogation from a Marxist perspective. Regardless, an increase in income inequality or further relative immiseration of any group in society would be considered morally defunct from a Marxist or social democratic perspective, and undermines social cohesion.

The goal of achieving sufficient economic growth to place New Zealand in the top half of the OECD by 2011 was not achieved, although the average percentage increase in GDP was 3.8 percent between 1999 and 2005. In the “Foreword” to GAINZ, Prime Minister Helen Clark stated that economic success would be of material benefit to all New Zealanders.\(^2\) This chapter focuses empirically on income distribution and other measures of socioeconomic inequality in order to ascertain whether or not Clark’s statement, and the Government’s wider justification of the GIF, is correct in this respect. In other words, did the implementation of the GIF really benefit all New Zealanders or did it benefit business, farmers and high income earners to a greater extent than the majority of New Zealanders who are low and middle income earners?

Section 8.2 considers the distribution of income shares along a proxy for class lines: the employment status of those in the labour force. Section 8.3 considers the question of whether Maori are receiving full compensation for their innovative and creative efforts. The increasing number applications for intellectual property rights (IPRs) made over the period suggests that applicants were finding it commercially worthwhile to consider bringing innovations to the market, and protecting them with IPRs, allowing for the appropriation of any resulting profits. Although intellectual property legislation is promoted as protecting the rights of the individual innovator, employment law dictates that employers retain the IPRs of their employees, and the existing regimes of IPRs characteristic of advanced capitalist societies do not protect the interests of indigenous peoples. Given the lack of empirical data available, and the methodological point made in Chapter One about the difficulties of accurately ascertaining the nature of the relationship between observed phenomena and their root causes, it is difficult to make direct observations about the return of profitable returns from IPRs. However, an examination of the income data by employment status and ethnicity does provide some insight into the distribution of outcomes along these lines.

Regardless of whether the material living standards of all New Zealanders have improved, a further question remains. One of the central, and arguably most significant, elements of the legacy of the neoliberal experiment as it was carried out in New Zealand has been the resulting increase in income inequality. Chapter Two described the dramatic rise in income inequality as measured by various estimates of Gini coefficient series experienced between 1984 and 1999. This chapter expands on this theme to demonstrate that the increase in income inequality experienced between 1984 and 1999 has largely continued under the Fifth Labour Government. In critiquing
the neoliberal experiment in New Zealand, the trickle down hypothesis proved to be invalid to 1999 and under the Fifth Labour Government’s variant of neoliberalism. While some adjustments need to be made to account for Working for Families, it is not surprising that this trend has continued. From a Marxist perspective, inequality of outcomes results from underlying exploitative class relations, and for this reason, the continuing increase in income inequality needs to be examined along the lines of class and ethnicity, as part of the wider critique of neoliberalism’s impact on New Zealand society.

8.1 Has the GIF Improved the Living Standards of All New Zealanders?

A first step in assessing the GIF is to consider whether it achieved the more modest social outcomes it aspired to meet. Considerable effort has been made by government agencies to monitor some of the economic outcomes, in particular but not limited to reports and statistics published by the MED, GIAB, MoRST and Statistics New Zealand. Although these efforts have the limitations that are outlined in Chapter Seven, at the very least the exercise attempts to be comprehensive and contains commentary on a wide range of indicators.

There are no GIF related indicators that deal with the impact of GIF policies on the life chances of individuals. While the Benchmark Indicator Reports include indicators such as literacy, this is discussed from the point of view of the labour market and the firm, with the objective being to provide a measurable dimension of a skilled and effective labour force. The impact of changing literacy levels on individuals, or groups within civil society such as the unemployed, those on lower wages, women and Maori is completely ignored, although given the GIF document was aimed at business and at
government this is not surprising. The only reference to outcomes for interests other than at the firm or industry level, or the macroeconomic level of economic growth, is the concluding sentence in the “Foreword” to GAINZ which states “Together we can build momentum for an economic success story delivering for all New Zealanders the standards of living to which we aspire.”

To be clear: this statement does not directly promise an improvement in living standards for all. However, in the context of the document’s emphasis on declining overall living standards, with the focus on a revival of those standards, it seems reasonable to assume that at least an overall improvement is sought. The use of the phrase “delivering for all New Zealanders” (emphasis added) implies that the positive outcomes will apply in some way to everyone, even if it is to a small degree. This does not preclude the possibility of some benefiting more than others. Clark’s accompanying speech provides explicit statements of the view that the GIF will contribute positively to economic growth and will thereby benefit all New Zealanders. Firstly, she makes the link between economic growth and living standards:

Indeed for most of us the development of a stronger economy is a means to an end. That end is higher living standards and the ability to provide a better quality of life for all our people.

Clark also takes this a step further in claiming that not only will growth lead to higher living standards, it will also extend to the provision of public services:

We have placed growth and innovation at the top of our agenda so that New Zealand can generate the wealth required not only to increase living

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standards for all, but also to fund world class health and education services for all New Zealanders.\(^5\)

This chapter measures whether this objective was achieved. Per capita economic growth was top of the list of benchmark indicators. However, while per capita economic growth is widely used within economics as a measure of average living conditions useful for comparisons between countries, it is insufficient for our purposes, in that the neoclassical school assumption that an increase in per capita income will automatically benefit everyone by ‘trickling down’ to reach those on lower incomes is highly questionable.

Instead, it is necessary to examine the outcomes at a micro level. Ideally, it would be useful to carry this out at the individual level, because that is the level on which the Government implied that outcomes will be delivered. However, this is highly problematic. The statements above cannot be empirically examined in their exact literal form as they appear without embarking on qualitative research which is outside the scope of this study. The study is limited to quantitative statistics that are only available with respect to different segments of the population, and are carefully rounded by Statistics New Zealand to preserve confidentiality. Outcomes can be considered for different groups overall, but not for individual New Zealanders: likewise, mobility between groups (say, between occupational and industry levels in employment) cannot be accounted for. Secondly, while the above statements refer to New Zealanders, for measurement purposes the analysis is limited to those covered by the Statistics New Zealand data, who, generally speaking, lived in New Zealand at the time of the original collection of data, who may or may not consider themselves

'New Zealanders', and also excludes those New Zealanders living overseas. Finally, most data in this chapter relates to incomes. This is clearly a narrow approach to considering living standards: however, income levels are a major determining influence of living standards.

**Figure 8.1** Real Wages (Median and Average Hourly Earnings of Wage and Salary Earners Before Tax) as presented in *Growth Through Innovation*.

Figure 8.1, above, appeared in the 2005 *Economic Development Indicator Report*, and depicts real average and median annual earnings for the period from 1997 to 2004. This was the first time that the official GIF literature presented an indicator

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6 This is not problematic: it seems fair to assume that Clark was referring to those living in New Zealand, now or in the future, rather than those living across the world.


8 The original image is provided because while the source is cited as the New Zealand Income Survey, this data has been adjusted to take account of inflation. The inflation series used was not cited and in the interests of representing this graph as it appears in the original documents accurately, it has been copied rather than recreated.
Winners and Losers of the GIF 373

concerning overall living standards in New Zealand over time. The report states this is important because, “ultimately, economic growth is only beneficial to the extent that it raises the incomes and living standards of New Zealanders. Data on real wages provides an indicator of how growth is translating into changes in income levels over time.”

This is a useful starting point in discussing living standards, with some limitations. Perhaps the main point to be noted about Figure 8.1 is that while both categories have increased slowly and steadily since 1997, real median hourly earnings are significantly below real average hourly earnings. This indicates that the hourly earnings of most wage and salary earners in fact falls below the average, suggesting a small proportion on higher hourly earnings that are placing upwards pressure on the average hourly earnings. More to the point, this gap appears to have widened further between 2002 and 2004.

The next step, therefore, is to establish whether this widened gap between the earnings of wage and salary earners is characteristic of wage and salary earners overall, or only of specific groups within this category. A starting point is looking at nominal wages at the industry level:

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It is clear from Figure 8.2 that average nominal hourly earnings have gone up in all industries, although in some industries they have increased more than others, and/or increased at a faster rate. The industry major groups with the biggest overall increases

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in average hourly earnings are ‘agriculture, forestry and fishing’, ‘business and financial services’ and ‘other services’. The increases are summarised in Table 8.1:

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>49.92</td>
<td>55.14</td>
<td>6.08</td>
<td>6.49</td>
</tr>
<tr>
<td>Business and financial services</td>
<td>53.58</td>
<td>44.18</td>
<td>9.20</td>
<td>8.08</td>
</tr>
<tr>
<td>Other services</td>
<td>54.14</td>
<td>46.49</td>
<td>8.50</td>
<td>7.68</td>
</tr>
</tbody>
</table>

Two out of three of those industries experiencing the highest overall percentage increases in average hourly earnings were also the two industries with the highest average hourly earnings in dollar terms. The business and financial services industry has the highest average hourly earnings, and has not been surpassed by any other industry major group over the period. Average hourly earnings increased by 53.58 percent over the period (44.18 percent since the Fifth Labour Government came into office) to reach NZ$26.37 in 2007. The largest increase in percentage terms over the period from 1997 to 2007 was experienced by those employed in the other services category, at 54.14 percent. While the other services category was mainly in line with the increases in average hourly earnings of those employed in the ‘education’ and ‘transport, storage and communication’ categories, ‘other services’ crept ahead of the other two categories between 2006 and 2007.

These seemingly large wage increases should be looked at closely. As mentioned, they are in fact nominal and have not been adjusted for inflation. Over the period from 1997 to 2007 inflation increased 23.1 percent, while over the period from

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11 Calculated from *New Zealand Income Survey*, various issues, Table 10.
1999 to 2007, this figure was 20.3 percent.\textsuperscript{12} Inflation offsets some of the increase in earnings, although it can at least be said that in the case of these industry groups, in general, wage increases have surpassed the rate of inflation. It is of course not always the case that workers receive pay increases in line with inflation.

As Figure 8.3 shows, for the same three industries, the gap between the average and median hourly earnings has tended to grow over time. This is most pronounced in the business and financial services industry major group, where the gap between average and median hourly earnings rose from $2.44 in 1997 to $4.89 in 2007. In the other

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure8_3.png}
\caption{Average and Median Hourly Earnings for Industries with Highest Overall Increasing Earnings 1997 to 2007\textsuperscript{13}}
\end{figure}

\textsuperscript{12} Reserve Bank of New Zealand (courtesy of Statistics New Zealand), \textit{A3 Incomes and Prices historical series}, available at \url{www.rbnz.govt.nz/statistics/econind/}, accessed 20th June 2009.

\textsuperscript{13} Sourced from Statistics New Zealand, \textit{New Zealand Income Survey}, various issues, Table 10.
services major group, the increase appears to be less profound but still rose from $1.56 in 1997 to $4.06 in 2007. Less important than the dollar value of the difference is the fact that it represents more wage and salary earners receiving less than average or a small minority increasing their earnings, which are already significantly above the average. In the case of those employed in the agriculture, forestry and fishing industry major group, there was a closing of this gap until 2002 when it became as low as NZ$1.35, but it has since risen, reaching $2.66 in 2003 and surpassing $3.00 in 2004. While there was a temporary narrowing of the gap in 2006, it increased again in 2007.

Regular increases in the minimum wage are likely to be one factor leading to increasing earnings in all industries. When the overall earnings are lower, however, as in the case of agriculture, forestry and fishing (with median earnings ranging from $10.08 in 1997 to $15.00 in 2007) this may have been a factor in also keeping the increasing gap between average and median hourly earnings to a minimum. Overall, the widening gap between average and median in all cases indicates that a greater proportion of those employed in these industries are on less than the average hourly earnings than in 1997. This does not mean that individuals necessarily became worse off in nominal terms, although they do in relative terms.
Applying a similar analysis to average hourly nominal earnings by occupational major groups yields a similar result: average hourly earnings have increased for all occupational major groups but again, faster for some groups than others. Here, the three groups with the largest overall percentage increases are summarised in Table 8.2:

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14 Ibid., various issues, Table 10.
Table 8.2 Summary of Largest Increases in Average Hourly Earnings for Occupational Major Groups

<table>
<thead>
<tr>
<th></th>
<th>Overall percentage increase</th>
<th>Total increase in average earnings (NZ$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislators, administrators and managers</td>
<td>53.91</td>
<td>42.28</td>
</tr>
<tr>
<td>Professionals</td>
<td>54.33</td>
<td>41.96</td>
</tr>
<tr>
<td>Agriculture and fisheries workers</td>
<td>44.21</td>
<td>51.61</td>
</tr>
</tbody>
</table>

As with industry major groups, two out of three of the occupational major groups experiencing the highest overall percentage increases in average hourly earnings were clearly also the highest earning occupational groups. Legislators, administrators and managers had the highest overall average earnings over the period, and experienced an increase in their average hourly earnings by 53.91 percent over the period (42.28 percent since 1999), reaching NZ$30.69 in 2007. The largest increase in percentage terms over the period from 1997-2007 was experienced by those employed in the “professional” occupational category, at 54.33 percent, although if limiting the period to after 1999, agriculture and fisheries workers experienced the biggest overall increase at 51.61 percent. Again, caution needs to be employed here: these increases do not account for inflation. Over the period from 1997 to 2007, the increases adjusted for inflation are more conservatively estimated at 30.81 percent for legislators, administrators and managers, 31.23 percent for professionals, and 21.11 percent for agriculture and fisheries workers.¹⁶

¹⁵ Ibid., Table 10.
As Figure 8.5 illustrates, the gap between average and hourly earnings for legislators, administrators and managers has increased quite substantially, from NZ$2.55 in 1997 to $6.21 in 2007, but less markedly so for professionals, from NZ$1.65 in 1997 to $3.86 in 2007. In contrast, the smaller increase for those employed as agriculture and fisheries workers is in line with earlier observations: an overall increasing trend, but less so than the increase in Figure 8.3, probably because the industry category contains workers at all levels of hierarchy in an industry, whereas the occupational major groups at this lower level tend to be more homogenous in terms of overall skill and hierarchical level. This illustrates the importance of remembering that there is not direct crossover between industries and occupations: industry major groups can

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17 Ibid., various issues, Table 10.
contain a wide range of skilled and unskilled workers, and occupational major groups contain workers in different industries with similar professional functions.

These results suggest some key observations. Firstly, those industry and occupational categories that have seen the biggest overall percentage increases in average hourly earnings are those that already earn the most on average per hour. Although it is not possible to follow this through and say there is a direct relationship between average level of earnings and the percentage increase gained over the period at every level, this is noteworthy: any increases in wages and salaries appear to have been achieved disproportionately to those employed in different industry and occupational major groups. Secondly, it is also clear that within each group, not everyone receives equal shares of the overall increases in earnings, by industry or occupational major group. Even in the highest paying industry and occupational major groups the gap between the average and median hourly earnings has increased over time: this suggests that even if every person employed in each group is increasing their hourly earnings and thereby improving their standard of living (as described by this crude statistical measure), this is not happening in an equitable fashion. This is a point of departure for future work.

Finally, in terms of class analysis, it is fair to say that at least in terms of occupational major groups, there is clearly a class bias here. If employing a neo-Marxist analysis of class such as that adapted in Hayes (2002) it is clear that it is far more likely to find those wage and salary earners that could be categorised as in Erik Olin Wright’s contradictory class locations (that is, managers, supervisors and semiautonomous employees) in the first two occupational major groups (that is, as
legislators, administrators and managers and as professionals) than in the other seven occupational major groups.\footnote{See classification employed in Hayes, P. J. M, 2002, \textit{The Origins and Dynamics of New Zealand’s Changing Class Structure}, unpublished MA thesis, Department of Political Studies, University of Otago, Dunedin.} Although this is not directly observable at this level of analysis, it is interesting that these two groups have both the greatest overall percentage increases in average hourly earnings and the highest average hourly earnings. In addition to this, while the gap between average and median incomes has not been investigated for other occupational major groups (except for agriculture and fisheries workers) the trend for the gap to increase over time is of interest.
Of course, as Figure 8.6 shows, average increases in weekly incomes vary considerably and not all income sources are reliably increasing over time. Here, perhaps surprisingly, average weekly incomes coming from wages and salaries have increased more than all other sources, with an overall increase of 67.2 percent between 1997, at NZ$262, and 2007, by which time it had reached NZ$438. If inflation is taken into account, this represents an increase of 44.1 percent. While average weekly incomes for wage and salary earners have trended upwards faster than those in other employment statuses, this may be because of pressure to take on more hours of work rather than because they are receiving higher wages. On the other hand, average weekly incomes from government transfers increased over the period by

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19 Statistics New Zealand, *New Zealand Income Survey*, Table 1, various issues.
approximately 19 percent, from $63 in 1997 to $75 in 2007: a nominal increase, but real decline of approximately 4 percent. Finally, it is interesting to note that there has been a lower but still noteworthy increase in average weekly personal incomes from self-employment, of 28.9 percent over the period from $76 in 1997 to $110 in 2004, but since reducing to $98 in 2007. From 1997 to 2004, this represented an increase of approximately 30 percent, but the subsequent decrease to 2007 and the impact of inflation resulted instead in a small real increase over the period of 5.8 percent. This category does not include employers, only self-employed people with no employees.

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20 It must be remembered that these are average figures for all people and therefore do not account for variables like fluctuating unemployment.

If the so-called “knowledge society” produces added value in the form of greater prosperity, there is no guarantee that all workers (skilled and non-skilled, or knowledge and other workers) will reap equally the benefits. It seems reasonable to assume that if skilled or knowledge workers are producing new value, that they would be the ones to be rewarded with a greater share of income as this is recognised by employers or through successful entrepreneurship. Figure 8.7 highlights the point that although there is a general increase in average weekly incomes for those with any level of qualification, it appears to be higher for those with higher qualifications. In fact, on closer inspection, those with a higher\textsuperscript{23} school qualification experienced the

\textsuperscript{22} Statistics New Zealand, \textit{New Zealand Income Survey}, Table 1, various years.

\textsuperscript{23} This refers to a qualification higher than Sixth Form Certificate.
highest overall increase in average weekly incomes, from NZ$264 in 1997 to $537 in 2007, an increase over the period of 103.4 percent. At the other end of the spectrum, those with a bachelor’s or higher degree only experienced an increase of 48.4 percent (from $697 in 1997 to $1,034 in 2007). The other qualification category most likely to correspond with skilled or knowledge workers is those with other post-school qualifications (but with the category of vocation or trades qualifications included separately), and they experienced the smallest increase at 29.8 percent (from $486 to $631). There are limitations with this data, in that it does not account for the source of the income, however it is a surprising result. The overall increases are summarised and ranked below:

Table 8.3  Summary of Changes in Average Weekly Income for all People (Aged 15 years or over) By Highest Qualification

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<tr>
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<tbody>
<tr>
<td>Higher School Qualification</td>
<td>264</td>
<td>537</td>
<td>103.41%</td>
<td>80.31%</td>
</tr>
<tr>
<td>Other School Qualification</td>
<td>282</td>
<td>437</td>
<td>54.96%</td>
<td>31.86%</td>
</tr>
<tr>
<td>School Certificate</td>
<td>330</td>
<td>511</td>
<td>54.85%</td>
<td>31.75%</td>
</tr>
<tr>
<td>Vocational or Trade Qualification</td>
<td>500</td>
<td>765</td>
<td>53.00%</td>
<td>29.9%</td>
</tr>
<tr>
<td>No Qualification</td>
<td>288</td>
<td>434</td>
<td>50.69%</td>
<td>27.59%</td>
</tr>
<tr>
<td>Bachelor or Higher Degree</td>
<td>697</td>
<td>1,034</td>
<td>48.35%</td>
<td>25.25%</td>
</tr>
<tr>
<td>Sixth Form Certificate</td>
<td>369</td>
<td>538</td>
<td>45.80%</td>
<td>22.7%</td>
</tr>
<tr>
<td>Other Post-School Qualification</td>
<td>486</td>
<td>631</td>
<td>29.84%</td>
<td>6.74%</td>
</tr>
</tbody>
</table>

Finally, the different earnings by age reflect the fact that at different stages in life, people participate to a greater or lesser degree in the labour market. For this reason it is not surprising to see that at different ages, average weekly incomes are different. Here, it is clear that those in younger age groups and those approaching retirement age have lower overall average incomes.

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24 Calculated from *New Zealand Income Survey*, Table 1, various issues.
Younger and older people also have lower increases over the period in percentage terms. It is highly likely that in the case of those under 30, this is compounded by the impact of student loans and repayment obligations, and it is possible this may worsen in the future as more students move through the tertiary education system. However, there is not the scope here to investigate this in any detail, merely to point out that as Figure 8.8 shows, age can have some impact on the likelihood of experiencing a larger or smaller increase in income.

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25 Ibid.
Table 8.4 highlights the fact that while those approaching retirement have lower incomes on average alongside younger people, they still have the highest percentage increases in their incomes overall, whereas those between 15 and 29 experienced much lower overall percentage increases than other age groups.

There are some other caveats with this data. In addition to not telling us much about the experience of individuals, it also does not tell us much about the experiences of children. It also does not tell us much about the likelihood of some people becoming better off over time by finding better jobs or moving from a benefit into a job, quite possible during a period of declining unemployment.\(^{27}\) It is impossible to infer the direct effects of particular government policies in this data. However, the overall picture we have gained suggests that different categories of people are not experiencing an equal improvement in their material standard of living. It cannot even be said that all groups have experienced an improvement. Furthermore, one of the

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\(^{26}\) Ibid.

\(^{27}\) Of course, since this analysis has been conducted, New Zealand along with other advanced capitalist economies have entered a recession, and unemployment has begun to rise. This is outside the scope of this project, but the reverse would be true in some circumstances, in New Zealand and elsewhere.
basic assumptions associated with the notion of a knowledge economy is that at least those in ‘knowledge occupations’, who are theoretically adding value, should be rewarded in a proportional fashion. The occupational and industry data presented in this section indicate that this assumption can be challenged. Even when the impacts of other social policy initiatives are taken into account, they still disproportionately benefit some workers over others. After commenting that the GIF was not primarily about redistribution, Hodgson argued that wages were a key concern. This point was made with respect to increasing the minimum wage in Chapter Seven, but with some elaboration is a key point worth repeating here:

HODGSON: However, GIF did have at its heart the idea that it would be good if we had an economy that was more high growth, high tech, high wage. That in fact we knew that as we were going along, there was something happening in the world, and which still is happening, which is that there is an international contest. People are either paid international salaries or local wages. And that one of the issues around having an innovative approach to economic development is that you will end up with more of the former, more of the international wages. More of the biochemist who can say well I am worth $150K so pay up or I’m off cause I’ll get it somewhere else. And then the person who comes and cleans their house not having that economic power. We were well aware, we spoke about it, that innovation was the driver for inequality, and that the only way to address that on the wages front was through the minimum wage.

HAYES: That’s interesting, because there are three key questions that form the basis of the thesis. The economic underpinnings, ideological drive, whether it was essentially neoliberal continuity, especially the macroeconomics.

HODGSON: We didn’t roll them back.

HAYES: What about at the microeconomic and social level: state housing, student loans?
HODGSON: Sure, but that disproportionately assists middle classes. You can get too carried away with that one. They were hugely expensive, but not a great lowerer of the GINI coefficient. In fact they would raise it.28

Perhaps more substantively, in terms of the evaluation of public policy is whether it makes specific individuals worse off than they were before. We can say that in relative terms, some people are benefitting more than others in terms of income. This will be explored later in this chapter.

8.2 Income Implications of Employment Status or Class

The question of whether inequality in New Zealand has persisted along class lines can be examined by using the category of employment status. The Household Economic Survey (HES) provides data on income distribution by source; including wages or salaries, self-employment, New Zealand Superannuation, other government benefits and investments. This last is of some use, but neglects to discern the difference between types of investments (which can include interest, rent, dividends and royalties), making it difficult to estimate the extent to which different groups of capital have benefitted directly through this investment. More immediately useful is the category of ‘Labour Force Status and Status in Employment’ found in the HES.29

Unfortunately, data for the HES prior to 2001 is not available, and for this reason, data is provided for 2001 and 2004 only (the HES is currently conducted on a triennial basis). While results from the 2007 HES are available, it does not contain a breakdown of deciles according to employment status (only making a distinction between

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28 Hodgson, P., Interview with author (recorded and transcribed), 2 August 2010.
employment in any form and unemployment). The employment status category is more useful when analysing the class dimension of income distribution:

Figure 8.9 shows employers have experienced mixed results overall in terms of movement between personal disposable income deciles. Five of the deciles show a decline in the percent of employers falling into that income bracket in the comparison between 2001 and 2004, while five show an increase. Initially that seems reasonable, particularly as the results are random across deciles: for example, those showing a decline are deciles one, two, five, eight and nine, which seems to be a random series. However, two observations can be made. Firstly, the lowest earning two deciles have experienced a decline: in decile one, the share of income received fell from 9.3 percent in 2001 to 7.0 percent in 2004, and in decile two, it fell from 8.4 percent to 5.7 percent. At the same time, those employers earning incomes which place them in the top income decile have increased dramatically, from 23.3 percent in 2001 to 33.0 percent in

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30 Ibid.
2004. This seems to indicate an overall tendency towards employers moving into higher deciles, although this observation might be tempered by the effect of the intervening deciles indeterminate result.

Regardless of what has happened between the two surveys, employers are not evenly distributed along the deciles. Equal distribution of income amongst employers would be represented by ten percent in each decile, whereas in the case of deciles one to four, the percentages fall lower than this level. On the other hand, in decile ten, we see a concentration of employers: more than twice that of an equal distribution in 2001 and more than three times in 2004. This may be reflective of Marx’s tendency for capital to concentrate over time, but that suggestion can be no more than tentative based on this data.
Figure 8.10  Percentage of Population over 15 Receiving Income from Investments
2002 to 2007\textsuperscript{31}

This is supported by Figure 8.10, showing the distribution of people over 15 years old receiving income from investments into quintiles. They are over-represented in the highest earning quintile (at around 30 percent), and under-represented slightly in quintiles two to four, and considerably under-represented in quintile one (at around 11 percent). It is also interesting to note that while overall only small changes have occurred in the percentage in each quintile, both of the top two quintiles experienced a more significant decline (from 19.61 in 2002 to 17.61 in 2005 for quintile four, and from 30.47 in 2002 to 28.57 in 2005 for quintile five), they have since recovered, perhaps suggesting that those receiving incomes from investment are shifting into these quintiles. However, the counter point is that the percentage falling into quintile one is increasing also, although to a smaller extent (from 11.67 percent in 2002 to 12.30

\textsuperscript{31} Calculated from \textit{New Zealand Income Survey}, Table 8, various issues. Data on investment income was only collected from 2002.
percent in 2007). Perhaps this reflects more favourable investment conditions at the top end, and an increase in people starting out in investing for the first time. These are tentative suggestions.

Figure 8.11  Percentage of Population over 15 Receiving Income from Self-employment 1997 to 2007

Figure 8.11 shows the distribution of those receiving income from self-employment over quintiles, and as with the investment data, the most important point that can be made initially is that those receiving income from self-employment are over-represented in quintiles four and five, somewhat under-represented in quintile three, and more substantially under-represented in quintiles one and two: i.e., as with those receiving income from investments and wages and salaries, the distribution of people over income quintiles is biased towards the higher quintiles. In this case, those in quintile five have been declining overall, despite a recent small increase between 2005 and 2006. This may reflect people moving from higher quintiles to lower quintiles, or it may reflect increasing numbers of people starting their own businesses and being in

32 Ibid.
the early stages, and likewise, those in the highest quintile growing and moving into the category of employers. The most significant limitation of this data is that it cannot be used to track mobility between quintiles.

**Figure 8.12  Percentage of Paid Employees in Each Personal Income Decile 2001 and 2004**

In Figure 8.12 the distribution of paid employees over income deciles builds on what was observed about real wages earlier in section 8.1. There appears here to be a small movement of paid employees towards the middle deciles, particularly deciles four to seven. In 2001, 37.4 percent of all paid employees were in deciles four to seven, while in 2004 that figure was 41 percent. This corresponds with declines in the top three deciles, representing 47.4 percent of paid employees in 2001 and 45.4 in 2004, and in deciles one and three, although the percentage of paid employees in decile two increased somewhat in 2004 also.

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33 Data series can be found in Table 26 of the *Household Economic Survey*, 2001 and 2004. Unfortunately data at this level of employment status is not publicly available for 2007.
This is backed up in Figure 8.13 by more detailed data on wage and salary earners (paid employees). Of those receiving wages and salaries, the percentage falling into the middle quintile has risen steadily over the period, from 18.8 percent in 1997 to 24.7 percent in 2007. This has mainly been offset by decreases in quintiles four and five. The decline was slightly more marked for quintile four, from 33.8 percent in 1997 to 29.8 percent in 2007. The decline in the top two quintiles is at least partially explained by the massive increase in the percentage of employers falling into decile ten over the period, and corroborates earlier evidence. As we saw in section 8.1, there have been disproportionate increases in wages and salaries by occupation and industry major groups which provide some of the explanation for these trends: these quintiles do not account for different occupational changes in income, for example, and they may be concentrated in certain quintiles rather than others. However, there is no direct way of

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34 Calculated from New Zealand Income Survey, Table 8, various issues.
testing this with the available data. Interestingly, the impact of Working for Families appears to be minimal within those working on the lower two quintiles at least, where we would expect the benefits of Working for Families to be most direct, with the continuation of previously existing trends. However, this does not of course compare the impact on workers to those on benefits, which is impossible with this data source.

Figure 8.14 Percentage of Those Receiving Government Transfers in Each Weekly Personal Income Decile 1997 to 2007

Figure 8.14 indicates that those receiving income from government transfers appear to have been moving into the two lowest income deciles. While there have been small increase for deciles four and five (possibly due to parents who qualify for Working for Families, as they have occurred only from 2005 onwards, and if working they would have a higher starting point than a part-time working or unemployed parent), the percentage in quintile three has nearly halved, from 34.3 percent in 1997 to 20.2 in 2007.

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35 Ibid.
2007. In absolute terms, the number falling into quintile two has been pretty steady from 446,800 in 1997, to 488,100 in 2007, whereas the number in quintile one has almost tripled, from 44,700 in 1997 to 121,600 in 2007. Those in the two lowest income quintiles are most likely to rely on government transfers as their sole source of income, so it is quite significant that they are becoming relatively poorer compared to the rest of the population.

**Figure 8.15  Household Income Distribution (Before Housing Costs) 2004 and 2007**

This general point is backed up more specifically in Figure 8.15, which presents a significant shift in equivalent disposable household income between 2004 and 2007 as the result of Working for Families. The upwards shift appears immediately below the median, reflecting the provision of tax credits on those families with parents in paid work that meet the criteria. Perry notes it also reflects the reduction in the number of households with an income-tested benefit as the main source of income (100,000 fewer in 2007 than in 2004).  

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8.3 Ethnic Inequality

Historically, there is documented evidence of income inequality with respect to ethnicity in New Zealand society. Figure 8.16 demonstrates the effect on the distribution of income for the European/Pakeha population:

Figure 8.16 Percentage of European Population in each Disposable Income Quintile 1997 to 2007

Overall, the percentage of the European/Pakeha population in each disposable income quintile remained relatively stable, with the four upper quintiles experiencing some movement but returning to their original levels by 2007. In the case of quintile five, the percentage ranged from 21.4 percent in 1999 to 22.8 percent in 2004: by 2007, it was 22.3. The first quintile, representing the twenty percent of the population receiving the lowest incomes demonstrates two important points. Firstly, that overall

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38 Calculated from New Zealand Income Survey, Table 8, various issues.
European/Pakeha are under-represented in the first, and less so, third quintiles (the corollary of which of course is that they are over-represented in quintile 5). Also, since 1999 the representation of European/Pakeha in the lowest quintile has declined, from 18.2 percent in 2000 to 15.6 percent in 2005, recovering slightly to reach 16.4 in 2007. This of course tells us nothing about real incomes over time, but does tell us that policies under Labour have improved the relative position of some of the lowest-earning of the European/Pakeha population.

![Figure 8.17 Percentage of Maori Population in each Personal Disposable Income Quintile 1997 to 2007](image)

If European/Pakeha are under-represented in the lowest income quintile, Maori are much more severely under-represented in the uppermost quintile, as can be seen in Figure 8.17. In 1997, 11.6 percent of the Maori population fell into the fifth quintile,
and although this number increased slightly during the Fifth Labour Government’s first two terms to reach 12.6 percent in 2005, it was back to 12.0 percent by 2007. More significantly, the percentage falling into quintile four declined from 22.4 percent in 1997 to 19.8 percent in 2007. However, the percentage in the lowest quintile increased: in 1997 this figure was 20.3 percent, but in 2006, it was 22.8 percent, although it decreased slightly to 22.2 percent in 2007. The percentage of Maori in decile two trended downwards overall, but still did not change significantly overall, from 20.9 percent in 1997 to 19.8 percent in 2007. In other words, while these small changes cannot be called substantial, they cannot be ignored because they represent a decline of Maori incomes relative to European/Pakeha.

Interestingly, while the percentages received by those in the lowest two quintiles are relatively proportionate between 18.9 and 22 percent, a great percentage of Maori are concentrated in the third quintile. In three years out of seven the percentage of Maori in the middle quintile exceeds 25 percent, and in 2004 it reached 27.2 percent. There are a number of possible explanations for this, one of which is the decline in unemployment amongst Maori from 1999 onwards. However, striking a cautionary note data presented in *New Zealand Now: Incomes* shows a different story:

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Figure 8.18 shows another scenario with respect to the lower quintiles. The major difference between this data and that in Figure 8.17 is that this shows the distribution of Maori over disposable income deciles at the household level rather than at the personal level. It shows a much greater concentration of Maori in the lowest two quintiles, with the lowest quintile peaking at 34 percent in 1991, although generally remaining between 26 and 28 percent. Notably, the percentage of Maori falling into the second quintile has declined from 27 percent in 1982 to 22 percent in 1996. On the other hand, the middle quintile has increased quite substantially from representing 18 percent of the Maori population in 1982 to 25 percent of Maori in 1996. Direct comparison between these two data sets is not possible because of the different way in which each set was collected. However, it is possible that there has been a shift, in that more Maori are moving into the middle quintile. Although this data is not available

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into the first two terms of the Fifth Labour Government, it does provide some insight into trends prior to 1999.

However, later HES data shows that there has been a sharp increase in the percentage of Maori falling into deciles one, two and three, as illustrated in Figure 8.19. In fact, the total percentage of Maori in deciles one to three has increased over the period: while between 2001 and 2004 it declined from 33.0 to 29.2 percent in 2004, it has since increased substantially to reach 38.0 percent in 2007. Likewise, the top four deciles have all decreased: in total they added up to 36.2 in 2004, but dropped substantially to 27.2 in 2007. The middle three deciles have stayed relatively stable.

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Finally, Figure 8.20 shows that with respect to Pacific peoples, although the quintiles show fluctuations over time, it is clear that overall, there are two results. The percentage of people falling into the middle three quintiles has decreased in all three cases, from 18.9, 28.1 and 24.5 percent in 1997, to 17.8, 26.1 and 20.7 percent respectively. Correspondingly, quintile one consisted of 21.7 percent in 1997 to 26.5 percent in 2007. There has been a small increase in quintile 5 from 6.9 percent in 1997 to 7.7 percent in 2007, but this is a small and insignificant increase. In other words, overall, there has been a shift downwards in quintile terms for the majority of Pacific people, reflecting a deteriorating relative position of Pacific peoples in terms of income inequality.

43 Calculated from Statistics New Zealand, *New Zealand Income Survey*, Table 8, various issues.
8.4 The Persistence of Income Inequality 1999 to 2005

The Fifth Labour Government has implemented a variant form of neoliberal economic and social policy, in at least partial recognition that some policies went too far in disadvantaging relatively poor groups in society. To assess whether income inequality persisted beyond the election of the Fifth Labour Government in 1999, an indicative measure in the form of an estimated Gini coefficient, is shown in Figure 8.21.

According to Figure 8.21, income inequality, as measured by Gini coefficients increased from 1988 onwards, although more substantially from 1990 onwards, probably as a result of the slashing of welfare spending that occurred in the early 1990s when the Fourth National Government extended the neoliberal experiment. Before adjustment for housing costs, the Gini coefficient reached as high as 0.326 in

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2001, and despite social policy initiatives introduced since 1999, income inequality measured in these terms continues to persist. A similar overall pattern has emerged with respect to the Gini coefficient for incomes after being adjusted for housing costs, where income inequality has increased over time at a faster rate than for incomes not adjusted for housing costs. In other words, increasing housing costs are creating even greater inequality of distribution of after housing cost incomes over time. It should also be noted that this measure stabilised to an extent between 2001 and 2004, from 0.381 to 0.37, and remained so in 2007 at .368.

Another way of measuring income inequality which is sensitive to the variations in incomes at particular income levels is percentile ratios. Figure 8.22, above, presents four series of percentile ratios from 1982 to 2010. In particular, the P90/P10 and

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45 Ibid. p 70.
P80/P20 ratios provide a broader picture, and reiterate the description presented by the Gini coefficient series. They represent the ratio of the lowest, but majority of the population’s income recipients (represented by P90 or P80: the poorest ninety or eighty percent respectively), to the highest earning minority (represented by P10 or P20: the richest ten or twenty percent respectively), and are shown before and after adjustment for the cost of housing. The P90/P10 ratio is a more extreme measure, as it accounts for more of the full spread of income distribution, while the P80/P20 is more moderate but also is less volatile than P90/P10. Both show an increase in income inequality from 1988 onwards, with the AHC P90/P10 reaching a peak of 5.77 in 2007 and the AHC P80/P20 peaking at 3.12 in 2004, although since then both have moderately declined.

As with the Gini coefficient series this is even more extreme in the case of the series that have been adjusted for the cost of housing. The P80/P50 and P20/P50 series compare the ratio of the twentieth and eightieth percentile respectively to that of the fiftieth percentile, and the overall direction (although much less pronounced) of the series reflects this. The eightieth percentile has improved in relation to the fiftieth percentile (in the case of the After Housing Cost (AHC) series from 1.57 in 1982 to 1.75 in 2004, but subsequently decreases to 1.7 in 2007, and continues to decline to 1.65 by 2010): in other words, it demonstrates an increase in income inequality since 2004. At the same time, the twentieth percentile has experienced a relative decline in their incomes (from 0.65 in 1982 to 0.56 in 2004 for the AHC series), but then the trend then reverses, with the ratio reaching 0.6 in 2007 and continuing to stay at the same level to 2010: again, reflecting an increase in income inequality since 2004. One final point is that all four of the AHC series stabilised somewhat between 2002 and 2004, which is most likely a result of the restoration of income related rents.
The promise of neoliberalism in particular is found in the idea that the benefits will eventually ‘trickle down’ to those at lower income levels, and it has even been suggested that the standards of living of different groups might converge over time. In this context, it is important to recognise that not only did New Zealand’s neoliberal experiment lead to an increase in overall income inequality as measured by Gini coefficients and percentile ratios, it also led to differential outcomes for rich (advantaged) and poor (disadvantaged):

Figure 8.23  Distribution of Personal Disposable Income Across Personal Disposable Income Deciles 1982 to 2004

Figure 8.23 illustrates the relative impact of the neoliberal reforms on disposable incomes. Between 1982 and 1996, those in decile 10 (the ten percent of the population with the highest disposable income) received an increasing share of the total available

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disposable income. In 1982 their share was 25 percent. After a slight decline to 1986 to reach 24 percent, substantial increases were achieved to 1996, by which time their share had reached 32 percent.\textsuperscript{17} On the other hand, sixty percent of the population (all those between the fourth and ninth deciles) experienced small but definite decreases in their relative share of the total disposable income to 1996. For those in the bottom three deciles, they experienced little or no change overall between 1982 and 1996.

The situation did not change dramatically following the election of the Fifth Labour Government in 1999. The share of total disposable income received by deciles four to seven continued to decline to 2001. Although each of these deciles received a small increase in 2004, their percentage shares have not since increased to their previous shares received in 1982. More significantly, in the cases of deciles one, two, three and eight, the percentage shares of total disposable income have declined to 2004. In the case of decile one, the percentage share has become negative. However, the increase in the percentage share of total disposable income received by the top ten percent of the population over the age of fifteen increased further in 2001 to reach 33.9 percent in 2001, decreasing only slightly in 2004 to 33.2 percent. This shows, in relative terms, that the increase in income inequality continued under the Labour Government, despite incremental adjustments to social policy. The rate of growth of income inequality has slowed, and slightly reversed in some categories of incomes, probably due to the economic recovery in the early 2000s, but overall the distribution shapes have been preserved. It must be emphasised however, that even if a return to a distribution of income like that seen in 1982 is too much to expect of a government after two terms, the share of total disposable income received by each of deciles one to seven is less than the share received in 1996, while those in deciles eight, nine and ten

\textsuperscript{17} Ibid., p 49.
have retained or increased their share. Fundamentally, the Fifth Labour Government has entrenched what are in comparative terms very high levels of income inequality, and probably a very high rate of exploitation. In the mid-2000s, New Zealand’s Gini coefficient resulted in it being ranked 8th most unequal out of thirty-one OECD countries.\(^{48}\)

**Figure 8.24** Average Household Equivalent Disposable Income by Household Equivalent Income Decile 1982 to 2004\(^{49}\)

The erosion of real incomes over the initial period of 1982 to 1996 is illustrated in Figure 8.24. All deciles apart from the top one experienced a decline in their average disposable income, with the average decline over the period being $3,067. While the declines were smaller for deciles one, two and nine (ranging from $1,300 to $1,900) for deciles three, four, and eight they exceeded $3,000 and for deciles five, six and seven


they exceeded $4,000. The majority of New Zealanders are on low and middle incomes: to put this in perspective, in 2004 the income range of decile five was $16,000 to $21,699, and for decile seven is $28,300 to $35,299, so this level of decrease is not insignificant. On the other hand, the ten percent of the population with the highest disposable incomes received an increase of almost $20,000 on average, from $75,700 in 1982 to $94,900 in 1996 (the income range in 2004 was $59,200 and over).

This reduction in real incomes was primarily caused by a combination of major changes to the personal income tax scale and the slashing of welfare benefits, as discussed in section 1.2. Since 1999, the situation has changed somewhat. Figure 8.24 shows that some redistribution has been occurring, because the average household equivalent disposable income for all deciles has increased again since then. However, the most striking feature of the data is that the 1982 levels have been restored and surpassed for the top five deciles, but have not been restored for deciles one to four, and have just reached the 1982 levels for decile five. The changes are summarised in Table 8.5:

Table 8.5  Summary of Changes in Average Household Equivalent Disposable Income by Household Equivalent Income Decile 1982 to 2004 ($2004)

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<td>-1,300</td>
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<tr>
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<td>20,300</td>
<td>-1,900</td>
<td>-600</td>
</tr>
<tr>
<td>3</td>
<td>23,500</td>
<td>-3,000</td>
<td>-1,300</td>
</tr>
<tr>
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<td>27,300</td>
<td>-3,900</td>
<td>-800</td>
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<tr>
<td>5</td>
<td>31,800</td>
<td>-4,100</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>37,000</td>
<td>-4,400</td>
<td>1,500</td>
</tr>
<tr>
<td>7</td>
<td>42,400</td>
<td>-4,300</td>
<td>3,400</td>
</tr>
<tr>
<td>8</td>
<td>49,100</td>
<td>-3,300</td>
<td>4,600</td>
</tr>
<tr>
<td>9</td>
<td>57,200</td>
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<tr>
<td>10</td>
<td>75,700</td>
<td>19,200</td>
<td>29,500</td>
</tr>
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Ibid.
Only deciles six to ten have had their average disposable incomes restored to surpass their 1982 levels, and only deciles seven to nine have exceeded their 1982 levels by more than $3,000. The richest ten percent have increased their average disposable incomes by a further $10,300. In contrast, average incomes for deciles one to four are still lower than they were 22 years before.

Having demonstrated that overall income inequality has persisted, and in some respects increased since the election of the Fifth Labour Government, it is worth considering that the impact of this increasing inequality may vary for different sectors of society. This is important in evaluating outcomes, because general measures of inequality have limitations. As we saw earlier, they only provide a limited indication of what is happening with respect to the material conditions in which people are living, and only give an indication of relative inequality. Moreover with respect to these results, this overall increase in inequality cannot be generalised to other areas where we know that historically there have been unequal outcomes.

**Conclusion**

This chapter has examined whether the GIF has achieved its second proposed outcome: to lift the living standards of all New Zealanders. In the context of the moderate economic growth described in Chapter Seven, it is highly unlikely that all New Zealanders are better off. There was some scope for the redistribution of income through the social policy agenda discussed in Chapter Six, but ultimately the GIF relies on neoliberal assumptions about markets and as such does not prescribe a significant redistributive role for the state. Although real wages are presented in the MED’s benchmarking exercise as having increased continuously, it is not
transparently the case: different sectors of society have experienced different income profiles, and after adjusting for inflation, while in most cases overall spending power has increased, in some cases it has increased only slightly, and in some declined. In the case of industry and occupational major groups, it is not necessarily the industries and occupations that are engaging in the most innovative activity that received the greatest increases in hourly earnings. Likewise, those with the highest level qualifications have not necessarily received greater increases in their average weekly incomes. This does not lend much weight to the notion that ‘knowledge workers’, however they are defined, are rewarded on the job for their innovative potential. In terms of intellectual property, it is clear that the tendency is for employers to retain the intellectual property rights to their employees’ inventions and other creative efforts.

Although it cannot be directly tested empirically, it seems that if anything, those wage and salary earners in the middle income deciles and quintiles are experiencing an increased share of income, at least in part due to policies such as Working for Families. However, rather than fundamentally altering the income distribution spread, the impact has been limited to those families that are in work: Working for Families has not benefitted those without children, parents not in paid work and those over the income threshold. Because Maori and Pacific peoples are concentrated in lower income deciles, they have been more adversely affected by increasing inequality than other groups. Likewise, general increases in wages have not been benefitted all workers.

While the first two terms of the Fifth Labour Government were characterised by economic growth and declining unemployment, it is not clear that the GIF has
delivered on Clark’s promise of improved living standards for *all* New Zealanders. Moreover, the income inequality generated during the late 1980s and 1990s has largely remained as a feature of New Zealand society, despite the social reforms discussed in Chapter Six. This is due in part at least to the continued entrenchment of the neoliberal policy agenda.
Conclusion

The objective of this thesis has been to analyse and critically evaluate the Fifth Labour Government’s GIF from a Marxist perspective. This project has a broader significance as it allows for an assessment of the neoliberal governance project in general, given the fact that New Zealand is widely regarded as a ‘pioneer’ in this regard. The Fifth Labour Government was elected in 1999 following fifteen years of neoliberal reform in New Zealand, intended to lift New Zealand’s profitability and international competitiveness in the light of the onset of economic crisis in the mid-1970s. Despite the 1999 election result providing a clear mandate for the Fifth Labour Government to reject neoliberalism, the Government worked hard to appease the business community, reassuring them economic and social reform would be minimal. Despite this, the left in general embraced the Fifth Labour Government, especially in the first two terms. In part this was due to the speedy reform of the industrial relations legislation: within one hundred days of being elected, the Fifth Labour Government repealed the much-lamented ECA that had been brought in by the previous Fourth National Government. The Fifth Labour Government framed itself in contrast to the previous Government, and the public were convinced by its efforts to distance itself from the worst of the neoliberal reforms. Small-scale shifts in policy to reverse the most unpopular of the Fourth National Government’s policies did help, as well as the systematic increase in the minimum wage coupled with falling unemployment and more stable economic growth.

However, this thesis challenges the notion that the Government’s approach constituted a new direction in economic and social policy. In most respects, the GIF and the Fifth Labour Government’s policy agenda constituted what could be called a variant of neoliberalism: largely a continuation of the neoliberal economic
agenda, although it did follow through with some modifications. Chapter Two outlined the economic, social and political context into which the Fifth Labour Government was elected in 1999. Following the onset of economic stagnation and eventual crisis that characterised the advanced capitalist countries from 1973 onwards, governments in advanced capitalist economies adopted neoliberalism in an attempt to revive declining productivity and in New Zealand’s case, to open up the economy to productive investment. Changing economic conditions helped to define the terms of the class struggle, and at different points in time in New Zealand’s post-war history, the demands (and the militancy with which they have been demanded) have altered considerably. In particular, the neoliberal project in New Zealand led to increased inequality, in part by disenfranchising workers through industrial relations legislation making it more difficult for them to defend their living conditions. While the Fifth Labour Government introduced new industrial relations legislation immediately after being elected, it retained the bulk of the neoliberal policy regime introduced over the previous fifteen years. Immediately after the 1999 election, the Fifth Labour Government associated itself with the “Third Way”, although this was short-lived. More enduringly, the Government adopted the notions of a new approach to “economic development”, “social development”, and a “modern social democracy”. I argue that the Third Way is in fact not a new political project, but modified neoliberalism. In addition, while the Fifth Labour Government emphasises what is new and different about its approach to economic and social development, I argue that it is predominantly underpinned by neoliberal assumptions and values.

The hype surrounding the term 'knowledge economy' and the related concept of 'knowledge society' have become widespread. Most advanced capitalist countries are embracing innovation as a source of competitive advantage in an increasingly globalised world. Likewise, R&D policy itself has not been immune to
neoliberalism: in New Zealand, the story of R&D funding parallels that of the rest of the public sector: increased accountability, commercialisation of government-funded research bodies and competitively-based funding regimes characterise R&D policy in New Zealand. The GIF aimed to continue this agenda. If the GIF led to increased innovation, intellectual property rights might play a distributive role in outcomes of the GIF, and are worth considering. Ultimately, they play a specific role in capitalist societies that is a logical extension of capitalist class relations, and subsequently, they have limitations in protecting the interests of the working class, Maori, and Pasifika.

Marx’s critique of the capitalist mode of production helps us to look beyond the surface phenomena of the capitalist economy and reveals its failure to live up to the claims made on its behalf. Such an ‘unmasking’ of the inner contradictions of capitalism is now more urgent than ever, in view of the almost universal acceptance of capitalism as the only alternative. Chapter One introduced the critique of capitalist exploitation, capitalist class relations and the class struggle as they underpin the notion of the class character of the state. Despite appearing to be neutral, the state operates in all class societies to maintain, reinforce and legitimise exploitative class relations. In particular, exploitation takes a particular form under capitalism which is distinctively different to that under slavery or feudalism. It is capitalist exploitation which underpins the contemporary class structure in New Zealand society, and forms the basis of class struggle, whether in the form of direct conflict or underlying capitalist relations. While Marxist theories of the state consider class to be central to the nature of state power, the notion that the state is a direct instrument of class rule needs to be rejected in the light of an acknowledgment that the state must have a degree of (relative) autonomy. In liberal ideology, the state is pictured as being elevated above society, acting as a neutral vehicle of interest mediation. However, the state is heavily compromised in
the class struggle, actually working to reproduce the social relations prevalent in that society and maintain the dominant position of the ruling class.

The interplay of economic forces and tendencies of production, the class struggle and the successful adoption of ideology to legitimise both the policy direction taken and the inequality generated by capitalist production are all essential elements of the class character of state power. A critical realist interpretation of Marxian methodology and the adoption of the retroductive research strategy allows us to draw implications for what constitutes proof of observed phenomena, when we are hypothesising about the underlying causal mechanisms of such phenomena. The materialist conception of history is helpful in making sense of social reproduction and transformation, and the adoption of different levels of abstraction at different points of analysis reveals that social change arises out of the contradictions in society, and out of collective action, rather than spontaneously or on the part of individuals. Likewise, the use of both historically specific and transhistorical categories both play a part in understanding the totality.

In the aftermath of the election that brought it to power, the Fifth Labour Government worked on formulating a strategy for economic growth, and established the Science and Innovation Advisory Council to assist them in doing so. The consultation process that ensued revealed much about the operation of key interest groups, and the sources and levels of influence of different interest groups has demonstrated that some interest groups certainly have more scope to influence policymaking than others. Essentially, the narrow terms of reference meant that the formal consultation process was limited to a discussion of the policy initiatives that eventually became part of the second section of the document “Building Effective Innovation”. This prohibited the discussion of all of the 'foundations' listed in the
section of the GIF called 'Strengthening the Foundations'. In other words, the major subsections of the GIF that leave the essentially monetarist macroeconomic framework and limited social policy prescriptions unchallenged were left off the consultation agenda. These were the policies most likely to affect living standards for the majority of New Zealanders.

Interest groups, both class-based and sectoral, both shape and constrain the state's grip on policy making. However, business interests have a structural advantage over other interest groups in times of relatively ‘peaceful’ class relations in influencing policy formulation. The example of the formulation of the GIF indicates this, particularly with respect to defining the overall macroeconomic agenda and social policy basis. In the case of the SIAC consultative process, this was enhanced by leaving the entrenchment of the neoliberal institutional framework off the agenda. This severely limits the possibility of an improvement in the living standards of all New Zealanders.

Chapters Five and Six sought to examine the policies contained within the GIF. Chapter Five was concerned with micro-level innovation-based policies and Chapter Six with the broader set of economic and social policy questions. Ultimately, the policies considered in Chapter Five and the majority of those in Chapter Six are underpinned by neoclassical economic assumptions and are subsequently focused largely on the supply side. While some important modifications to policy have been made to appease the Labour Government’s popular electoral base and alleviate some of the worst of the effects of the previous National Government’s policies, overall, the overwhelming effect of the policies considered in Chapter Five have been to promote the interests of business and capital accumulation rather than other sectors of society. In many respects, this is
not surprising, given that this chapter is focused on economic policies. This is backed up by commentary from interest groups.

The picture that emerged from the policies considered in Chapter Six is more mixed. The overall emphasis in the case of both social policy and health was to improve the supply-side of service delivery, rather than providing significant new funding. Most of the GIF polices worked to maintain the status quo, enhancing but not ultimately changing the direction of social policy, with two important exceptions: the restoration of income-related rents and the linking of superannuation to average wages. These two policies did constitute an advancement of the standards of living of those residing in state housing, and superannuitants. Overall though, the list of social policies included in the GIF is a short one, and they were small in scale.

The Fifth Labour Government did more for social policy than is reflected in these sections of the GIF alone: as outlined in Chapter Six, the three most significant being the raising of the top marginal personal tax rate, increasing the minimum wage, and the Working For Families package. The first two of these represented real attempts to introduce progressivity back into the tax structure and address the issue of minimum wages that were not keeping up with inflation. Both represented advancements on the part of those on lower incomes, and those in lowly paid jobs. It has been pointed out though that increasing the minimum wage was intended to play a crucial role in encouraging employers to employ skilled labour, and work towards addressing issues of inequality that were likely to arise from an innovation-based economy. However, Working for Families is fundamentally discriminatory and plays a key role in subsidising the low wages characteristic of the New Zealand economy. It is clear from the related policy documents that its introduction was about getting people off benefits and into
work, in times of low unemployment.

The GIF has to be assessed on the Government’s terms as well as those of its critics. Chapter Seven evaluates the performance of the Fifth Labour government’s social and economic strategies in terms of a number of relevant social and economic indicators. The most obvious starting point is the primary indicator used by the Government as an indicator of living standards, per capita economic growth. While higher levels of economic growth were realised, they were not significant enough to result in the restoration of New Zealand’s OECD ranking to the top half of the OECD by 2011, as stated in the GIF. An extensive series of Benchmark Indicators were established by the Fifth Labour Government to assist their agencies in evaluate GIF policies. Despite problems with the continuity of data collection according to these indicator categories, there was continual incremental improvement in these areas over recent years.

Measures of innovative activity by firms provided a more complete picture. The public and private sectors engage in different types of R&D, and the types and numbers of innovative activities being engaged in varied across industries. Larger firms were more likely to be engaged in R&D and innovative activities, although at the same time, the percentage share of total R&D carried out by the largest firms declined as those in smaller firms are engaging in more R&D activities. Importantly, firm size affected the basic quantity of R&D or innovation that is engaged in, rather than the type of innovative activity. Whether or not the GIF caused it, there was a growing recognition of the importance of R&D and innovation by firms, and of the role intellectual property rights play in both protecting these activities and promoting firms less ‘tangible’ assets. Importantly for our purposes, it is also clear that employees were recognised as the most important source of ideas and were seen as having a crucial impact on a firm’s
ability to be innovative, a sentiment only confirmed by the strength of the firm (as firms became more likely to innovate by size, they were also more likely to acknowledge the importance of staff to innovation).

What does all this mean in terms of economic performance? Most mainstream commentators agree that innovation still plays a central role in economic growth, and that the GIF policies were on the right track in terms of promoting innovation, and this was endorsed by the OECD. The macroeconomic framework and competitive microeconomic environment were considered to be a good foundation, and the remaining task is to focus on lifting productivity, through policies such as investing in the development of human capital and ensuring that there are adequate incentives to encourage participation in the labour market. Increasing the critical mass of investment capital available is also seen as a challenge.

However, looking at the data from a Marxist perspective suggests instead that underlying the recent (pre-2007) recovery in economic growth are powerful political and economic forces that have allowed the extension of the rate of exploitation of the working class, leading to lower than expected living standards and compromised class consciousness. While it may be reasonable to assume that the GIF may have contributed to the ongoing increase in innovative activity, it is simplistic to assume that this contributed directly to a somewhat favourable level of economic growth. Rather, the level of growth experienced is more dependent on underlying structural tendencies than anything else. Business support in the small way offered by the GIF at concrete level reflected a larger reality: the balance of class forces, and a particular interpretation of New Zealand’s economic performance that finds government policy to have a primary influence rather than a secondary one.
Finally, Chapter Eight evaluated whether the GIF achieved its second proposed outcome: to lift the living standards of all New Zealanders. In the context of limited economic growth demonstrated in Chapter Seven, the notion of every New Zealander experiencing improved living standards seems somewhat implausible. While Chapter Six identified some scope for the redistribution of income through the social policy agenda, ultimately the GIF rested on neoliberal assumptions about markets and as such did not prescribe a significant redistributive role for the state. While real wages are presented as having increased continuously, it is not clear cut: different sectors of society experienced different overall increases in wages, and after adjusting for inflation, while in most cases overall spending power increased, in some cases it increased only slightly, or even declined. The evidence seems to suggest that increases earnings are caused by a range of influences, not really discernible by the data available. What is clear in relation to wage and salary earners is that those in the middle deciles and quintiles experienced an increased share of income, most likely from policies such as Working for Families. Maori and Pacific peoples are both moving from higher to lower deciles overall. Of course, this may be the result of those in the European/Pakeha category shifting into the higher deciles.

The Fifth Labour Government’s GIF was fundamentally informed by an modified application of the policy prescriptions derived from neoclassical economics, and constituted a somewhat softened variant of the neoliberal policy agenda that was implemented between 1984 and 1999. While the Government suggested that the GIF would deliver an improvement in the living standards of all New Zealanders, this did not eventuate. In order to halt the trend towards increasing inequality that began with the process of neoliberal restructuring since 1984, fundamental changes are required. The neoclassical argument for increasing productivity as a contributor to economic growth to improve the living standards
of all New Zealanders is rejected. Business interests have disproportionately influenced policymaking to benefit the dominant class in New Zealand society, and this has resulted in an unequal distribution of the outcomes of productivity: these outcomes need to be challenged by the majority of New Zealanders.

A conclusion is supposed to set out the limitations of the research project, and establish an agenda for future research. It seems logical to do each of these in conjunction with the other. Firstly, as the Introduction acknowledged, this study contributes to a wider question concerned with the future of social democratic governments in a world where most advanced capitalist countries have adopted variants of neoliberal policy regimes. New Zealand is not the only country in which a traditionally social democratic party has been elected to government with a mandate to evoke change in the form of a departure from the neoliberal regime, and has not delivered: a major question is why is this occurring?

The thesis has answered this question in part by attributing the dominance of neoliberal ideas to the structurally defined dominant position of business interests over those of workers and the wider population over policy formulation. This is illustrated by examining the consultation process but also in the narrative provided by key actors about the Fifth Labour Government’s first term, in which the Government went to considerable lengths to appease business. One major limitation of this thesis is that it does not compare New Zealand’s experience to that of another similar country, or in fact to the third term of the Fifth Labour Government, or the subsequent Fifth National Government elected to power in 2008. In part this is due to the constraints of the word limit of a doctoral thesis. It is also an inevitable outcome of the scale of the thesis topic given the very limited secondary literature on this topic. However, a comparative project is worth pursuing to assess to what extent this experience is a common one. A useful first
step in the New Zealand context would be to examine in detail what the Fifth National Government’s economic development policy looks like, in particular with respect to the role for innovation in generating economic growth as a starting point.

Secondly, the assessment of the GIF’s economic outcome is limited in part by gaps in the literature that is beyond the scope of this thesis: while there are three major and very useful studies along Marxist lines that deal with the underlying profitability of capitalism, they do have limitations as acknowledged in the thesis. This work could be expanded upon to provide more updated assessments of the underlying trends of profitability in the New Zealand since 1996 and also deal more specifically with profitability trends within industries. While this is beyond the scope of this doctoral thesis, it is a useful direction for future research.

Thirdly, the impact on income distribution is useful, but limited in that it largely describes internal movement between deciles and quintiles. This is useful for the purposes immediately important to this thesis: the ongoing legacy of the neoliberal project to generate inequality. However, it doesn’t tell us much about the material living conditions of those working in successfully innovating businesses versus those who continue to work in unskilled jobs: it also doesn’t tell us much about the experiences of those living in poverty. The New Zealand neoliberal experiment and in particular the welfare reform of the Fourth National Government generated a number of reports into living conditions on lower incomes: this has not stopped but certainly slowed substantially over the period that the Fifth Labour Government was in power. More work needs to be done to address this considerable gap in the literature on the effects of neoliberal policies.
This thesis fills an important gap in a sparse literature critiquing the Fifth Labour Government and questioning the ongoing dominance of the neoliberal political project in light of a significant mandate to implement change. While a number of studies exist that have challenged aspects of the Fifth Labour Government’s policy framework, they have tended to focus on one specific policy or area of policy reform, rather than assess the full picture of the overall vision for economic and social development. While this has meant that the thesis has touched on a wide range of policies and in some places quite diverse content, it has been conducted in a systematic way to ensure a fair treatment of the subject matter (for example, through the inclusion of all aspects of social policy framework, as they have the capacity for redistribution of income, not just those listed in the GIF).

Likewise, the thesis has assessed the GIF not just on the terms most in line with the author’s views (the classical Marxist tradition), but also on the Government’s own terms. This is valuable in that it puts into focus the capacity of governments to meet even their own aspirational goals for policy, and sheds light on the extent to which public policy documents are political documents designed to win favour of specific communities. The GIF was aimed at business, and as such included policies to “showcase” what the Fifth Labour Government had been doing that business would approve of.

Perhaps most significantly, the thesis has established that business is in a privileged position to influence policy-making, despite the efforts of SIAC to address deficiencies in the representation covered by the consultation process. The retention of the neoliberal framework of policies with modified reform to address particularly unpopular policies of the previous Fourth National Government demonstrates that this power to influence the state is not absolute, but it is clearly much more substantial than that of most of the general population. This is despite
the fact that the result of this dominant position is the ongoing entrenchment of income inequality, with no significant measures in place to redress this outcome. The lesson from this for those seeking genuine restitution of fairer and more equal outcomes is that ultimately, liberal representative democracies that work so well in conjunction with capitalism are not sufficient to deliver a radically different set of outcomes. While substantial moves towards progressive taxation, improved working conditions including a return to a priority for full employment, and substantial extensions to the welfare sector would be welcome, the solution to the problem of ultimately unstable economic conditions that generate widespread inequality are not to be found within the capitalist mode of production.
Appendix A:
Information Sheet and Consent Form for Interviews

Title of Research Project: The Fifth Labour Government’s “Growth and Innovation Framework”

Researcher: Penelope J. M Hayes
PhD Candidate, Department of Politics, University of Otago

Supervisors: Dr. Brian S. Roper, Senior Lecturer, Department of Politics, University of Otago
Professor Philip Nel, Head of Department, Department of Politics, University of Otago

Department: Department of Politics

Statement Date: 10 May 2010

I am completing a PhD thesis with the Department of Politics at the University of Otago. The thesis aims to analyse and critically evaluate the Fifth Labour Government’s “Growth and Innovation Framework” announced in February 2002, as it forms the most comprehensive statement of the Fifth Labour Government’s policy agenda over the period 1999 to 2008. You have been identified through publicly available information such as media releases and websites as someone who may be able to provide interesting insights into aspects of the subject of the research project. You are invited to participate in an interview with the Researcher. The purpose of these interviews is to gather information and insights from key participants and commentators that are not necessarily available in the public written record.

Key areas of interest include:
- the nature of the Science and Innovation Advisory Council’s public consultation process;
- the rationale and motivations of the Growth and Innovation Advisory Board, including the context of the political climate;
- commentary from key political actors;
- the perspectives of key interest groups, in particular those of business associations and trade unions;
- the implications of the GIF for economic growth and income inequality in New Zealand society, and it’s ramifications.

Risks:
The risks of this study are minimal. The topics discussed in the interview may upset some respondents. You may decline to answer any or all questions and you may terminate your involvement at any time if you choose.

**Benefits:**
There will be no direct benefit to you for your participation in this study. However, you will contribute to a greater understanding of policy-making in New Zealand during the Fifth Labour Government and subsequent outcomes.

**Confidentiality:**
Given the nature of this study, it is hoped that you will be willing to consent to being identified in subsequent publishing of research outputs associated with this project. If so, you will be asked to sign a consent form which states that you are happy to be identified.

You may request that all or part of your responses be kept anonymous at any time. In this case, every effort will be made by the Researcher to preserve your confidentiality. A coding system will be used to ensure that no participant information will be noted on any notes, interview transcriptions, and transcribed notes. The key to the code will be stored separately from the data. Data will be kept in a locked filing cabinet in the personal possession of the Researcher for five years, in accordance with the University’s Policy on Ethical Practices in Research and Teaching Involving Human Participants, at which point all materials will be destroyed.

Information from this research will be used solely for the purpose of this study and any publications that may result from this study. Any final publication may contain the names of the public figures that have consented to participate in this study (unless a public figure participant has requested anonymity).

You have the right to request a transcript of the interview and review it for accuracy, and request that corrections be made if necessary.

You have the right to request a summary of the research findings if you are interested.

**Voluntary Participation:**
Your participation in this study is voluntary. It is up to you to decide whether or not to take part in this study. If you do decide to take part in this study, you will be asked to sign a consent form. If you decide to take part in this study, you are still free to withdraw at any time and without giving a reason. You are free to not
answer any question or questions if you choose. This will not affect the relationship you have with the researcher.

**Costs To Subject:**
The only cost associated with participating in this study is the time taken to participate in the interview.

**Compensation:**
There is no monetary compensation to you for your participation in this study.

**Person To Contact:**
Should you have any questions about the research or any related matters, please contact the Researcher at (09) 921 9999 extension 5070 or penny.hayes@aut.ac.nz
If you have questions regarding your rights as a research subject, or if problems arise which you do not feel you can discuss with the Researcher, please contact her Primary Supervisor, Dr. Brian Roper, Department of Politics, University of Otago on (03) 479 8667 or brian.roper@stonebow.otago.ac.nz
CONSENT FORM

You have two options for consent:

OPTION A:

By signing this consent form, I confirm that I have read and understood the information and have had the opportunity to ask questions. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason and without cost. I voluntarily agree to take part in this study. I consent to being identified as the source of my responses in the interview. I understand that if I change my mind at any point during the interview the existing interview data and notes will be destroyed.

Name of Participant:___________________________________________

Signature:___________________________ Date:____________________

OR

OPTION B:

By signing this consent form, I confirm that I have read and understood the information and have had the opportunity to ask questions. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason and without cost. I voluntarily agree to take part in this study. I understand that my contribution to the study will be kept entirely anonymous and confidential as above.

Name of Participant:___________________________________________

Signature:___________________________ Date:____________________
Appendix B:
List of New Zealand Governments Since 1935

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935-1949</td>
<td>First Labour</td>
</tr>
<tr>
<td>1949-1957</td>
<td>First National</td>
</tr>
<tr>
<td>1957-1960</td>
<td>Second Labour</td>
</tr>
<tr>
<td>1960-1972</td>
<td>Second National</td>
</tr>
<tr>
<td>1972-1975</td>
<td>Third Labour</td>
</tr>
<tr>
<td>1975-1984</td>
<td>Third National</td>
</tr>
<tr>
<td>1984-1990</td>
<td>Fourth Labour</td>
</tr>
<tr>
<td>1990-1999</td>
<td>Fourth National</td>
</tr>
<tr>
<td>1999-2008</td>
<td>Fifth Labour</td>
</tr>
<tr>
<td>2008-current</td>
<td>Fifth National</td>
</tr>
</tbody>
</table>
## Appendix C: Timeline of Key Events

<table>
<thead>
<tr>
<th>Date</th>
<th>Context</th>
<th>GIF Formulation and Implementation</th>
<th>Major Policy Developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 November 1999</td>
<td>Fifth Labour Government is elected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6th December 1999</td>
<td>Coalition Agreement signed with Alliance</td>
<td></td>
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<tr>
<td>21st December 1999</td>
<td>Speech from the Throne</td>
<td>Signalled establishment of Industry New Zealand</td>
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<tr>
<td><strong>2000</strong></td>
<td></td>
<td></td>
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<tr>
<td>March 2000</td>
<td>Nominations called for SIAC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 April 2000</td>
<td>Top marginal tax rate on income over $60,000 increases from 33 percent to 39 percent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21st June 2000</td>
<td>SIAC membership announced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 October 2000</td>
<td>Employment Relations Act 2000 comes into effect</td>
<td>Income-related rents for state housing reintroduced</td>
<td></td>
</tr>
<tr>
<td><strong>2001</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2001</td>
<td>SIAC asked to develop an innovation strategy and action plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 2001</td>
<td>SIAC published <em>Proposed Innovation Framework for New Zealand</em> and <em>Innovation Report Card</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 2001</td>
<td>LEK Consulting publishes <em>New Zealand Talent Initiative: Strategies for Building a Talented Nation</em></td>
<td></td>
<td>Ministry of Social Development established</td>
</tr>
<tr>
<td>December 2001</td>
<td>SIAC presented <em>Revised Innovation Framework</em> to Helen Clark</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2002</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 2002</td>
<td>GAINZ document released</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 July 2002</td>
<td>Labour wins general election</td>
<td></td>
<td>Paid parental leave is introduced</td>
</tr>
<tr>
<td><strong>2004</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 May 2004</td>
<td>Working For Families package released as part of Budget 2004, to take effect from April 2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Event/Comment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>--------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>17 September 2005, Labour wins general election</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>February 2006, GIF formerly superseded by Economic Transformation Agenda</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix D:
Background and Positions held by SIAC Members at Time of Appointment

<table>
<thead>
<tr>
<th>Name</th>
<th>Background</th>
<th>Positions held in June 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rick Christie</td>
<td>21 years in oil industry&lt;br&gt;-Managing Director of Cable Price Downer Ltd.&lt;br&gt;-Chief Chair of Technological Innovation Working Group&lt;br&gt;-Member of Prime Ministers -Executive of Rangatira Ltd and Trade New Zealand Enterprise Council&lt;br&gt;-Chief Executive of NZ Trade Development Board&lt;br&gt;-Member of Asia 2000 Foundation&lt;br&gt;-Director of BP New Zealand</td>
<td>-Deputy Chair, Foundation for Research, Science and Technology&lt;br&gt;-Founding Director, NZ Symphony Orchestra&lt;br&gt;-Director, Tourism Holdings Ltd.&lt;br&gt;-Chairman, Victoria University Foundation Board of Trustees</td>
</tr>
<tr>
<td>John Blackman</td>
<td>Involvement in the development of the software industry, participated in the Porter project of 1990, development of venture capital in NZ</td>
<td>-Managing Director, Xsol&lt;br&gt;-Director, Trade NZ&lt;br&gt;-Director, IFR Technologies&lt;br&gt;-Managing Director, Fact International&lt;br&gt;-Vice President, Geac Corporations&lt;br&gt;-Founder, NZ Intellectual Capital Foundation&lt;br&gt;-Founder, NZ High-Tech Council&lt;br&gt;-Founder, NZ Software Export Association&lt;br&gt;-Advisory Board Member of Unitech Centre for Entrepreneurship and Innovation</td>
</tr>
<tr>
<td>Vicki Buck</td>
<td>Former Mayor of Christchurch</td>
<td>-Development Adviso, Christchurch Polytechnic&lt;br&gt;-Board Member, Reserve Bank of New Zealand&lt;br&gt;-Local Government Commissioner&lt;br&gt;-Member, Prime Ministerial Taskforce on Employment&lt;br&gt;-Board Member, Christchurch International Airport&lt;br&gt;-Director/Founder, Christchurch College of English&lt;br&gt;-Director/Founder, Think Ink Ltd.&lt;br&gt;-Member, Netball NZ&lt;br&gt;-Member, Te Papa National Services committee&lt;br&gt;-Member, Jade Stadium Management Board&lt;br&gt;-Member, Christchurch Marketing Ltd.</td>
</tr>
<tr>
<td>Kate Frykberg</td>
<td>-Winner of the 2000 ABS Regional, National and Supreme Awards for women business leaders&lt;br&gt;-New Zealand Order of Merit, -17 years in internet and IT industries</td>
<td>-Managing Director, The Web Ltd.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Name</th>
<th>Background</th>
<th>Positions held in June 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donna Hiser</td>
<td>More than 20 years experience as a director, manager and business consultant</td>
<td>-Chief Executive, Innovus Ltd. &lt;br&gt;-Vice President, Information Technology - Association of NZ &lt;br&gt;-Director, Seamoon Consulting &lt;br&gt;-Vice President, NZ Academy of the Arts</td>
</tr>
<tr>
<td>Dr Michael Matthews</td>
<td>24 years in technology based operations in dairy industry</td>
<td>-Chief Executive Officer, Tatua Cooperative Dairy Company Ltd.</td>
</tr>
<tr>
<td>Sir Angus Tait</td>
<td>Since 1969, R &amp; D has been central to Tait Electronics</td>
<td>-Managing Director/Chairman, Tait Electronics Ltd &lt;br&gt;-Communications Advisory Council &lt;br&gt;-Founding Member, Technology for Business Growth Committee &lt;br&gt;-University of Canterbury Council &lt;br&gt;-Chairman, Tait Electronics Limited Board &lt;br&gt;-Board Member, Canterprise</td>
</tr>
<tr>
<td>Stephen Tindall</td>
<td>Member, Prime Minister’s Enterprise Council  &lt;br&gt;Member, Independent Biotechnology Advisory Council &lt;br&gt;NZ Order of Merit &lt;br&gt;Deloitte Businessman of the Year &lt;br&gt;NZ Herald Business Person of the Year</td>
<td>-Managing Director, The Warehouse &lt;br&gt;-Founder/Trustee, The Tindall Foundation &lt;br&gt;-Vice Chairman, NZ Sustainable Business Council for Sustainable Development</td>
</tr>
<tr>
<td>Dr Michael Walker</td>
<td>Director, Landcare Research  &lt;br&gt;Assistant Dean Maori in Science, University of Auckland</td>
<td>-Senior Lecturer, Biological Sciences, University of Auckland &lt;br&gt;-Director, Institute of Geological and Nuclear Sciences &lt;br&gt;-Director, Geological Hazards NZ Ltd. &lt;br&gt;-Advisory Committee Member, FRST Tuapapa Putaiao Maori Postgraduate Scholarship scheme</td>
</tr>
</tbody>
</table>
### Appendix E:
**Summary of Major Interest Groups’ Positions on the Seven Challenges of the PIF for New Zealand**

<table>
<thead>
<tr>
<th>Interest group represented</th>
<th>Position on SIAC Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Associations</strong></td>
<td>1 Reward ‘can-do’, risk-taking &amp; success</td>
</tr>
<tr>
<td>New Zealand Business Roundtable</td>
<td>2 Educate for a knowledge economy</td>
</tr>
<tr>
<td></td>
<td>3 Become a magnet nation for talent</td>
</tr>
<tr>
<td></td>
<td>4 Generate wealth from ideas &amp; knowledge</td>
</tr>
<tr>
<td></td>
<td>5 Excel globally</td>
</tr>
<tr>
<td></td>
<td>6 Network, collaborate &amp; cluster</td>
</tr>
<tr>
<td></td>
<td>7 Take an investment driven approach to government</td>
</tr>
</tbody>
</table>

**Business New Zealand**
- Agree, in calculable business sense & address ‘anti-business’ sentiment in education sector
- Agree, closer link between public & private sectors in education & skills / training
- Agree unconditionally

**New Zealand Council for Sustainable Development**
- Agree, must be environmentally sustainable
- NA
- NA
- Innovators require trust of the public
- NA
- NA
- Focus should be underpinned by principles of sustainable development

**Waikato Chamber of Commerce and Industry**
- NA
- NA
- Agree, no student loans scheme, low fees & bond to NZ
- Agree, universities are particularly slow to capitalise on innovation
- Agree, requires lower taxes, much less bureaucracy
- NA
- NA

**Canterbury**
- Agree, but
- NA
- Agree, but
- Agree, but
- Agree, but
- Agree, but
- Agree, this needs to
<table>
<thead>
<tr>
<th>Interest group represented</th>
<th>Position on SIAC Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Reward ‘can-do’, risk-taking &amp; success</td>
</tr>
<tr>
<td>Manufacturers Association</td>
<td>pessimistic about real change</td>
</tr>
<tr>
<td>Federated Farmers</td>
<td>Agree, but should not be subsidised by the state. Market the best method</td>
</tr>
<tr>
<td>Trade Unions</td>
<td></td>
</tr>
<tr>
<td>Post Primary Teachers Association</td>
<td>Disagree, requires analysis of downside of risk taking (ref. drugs &amp; alcohol in teenagers)</td>
</tr>
<tr>
<td>Association of University Staff</td>
<td>Agree, but should acknowledge diverse excellence in universities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest group represented</th>
<th>1 Reward ‘can-do’, risk-taking &amp; success</th>
<th>2 Educate for a knowledge economy</th>
<th>3 Become a magnet nation for talent</th>
<th>4 Generate wealth from ideas &amp; knowledge</th>
<th>5 Excel globally</th>
<th>6 Network, collaborate &amp; cluster</th>
<th>7 Take an investment driven approach to government</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Council of Trade Unions</td>
<td>Agree, but requires balance of respect between workers &amp; employers</td>
<td>Agree, but place primacy of knowledge society over knowledge economy</td>
<td>Agree, but requires improving workers’ wages to reward, &amp; ensuring access to education &amp; training</td>
<td>Agree, support tax deductibility of R&amp;D expenditure, share wealth with workers</td>
<td>Agree – also excel in working conditions</td>
<td>No comment, except that partnerships should include unions</td>
<td>Agree, but broader social investment required</td>
</tr>
<tr>
<td>New Zealand Vice Chancellors’ Committee</td>
<td>NA</td>
<td>Agree, but university education not just for economy; also general public good</td>
<td>NA</td>
<td>Agree in principle, some regulatory concerns</td>
<td>Requires tertiary funding issues are addressed</td>
<td>Agree, universities already do so</td>
<td>Agree, should invest in universities</td>
</tr>
<tr>
<td>Businesses</td>
<td>Cluster Navigators Ltd</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>Diagree with clustering, rather deepening &amp; widening existing networks &amp; professional associations</td>
<td>NA</td>
</tr>
<tr>
<td>Industrial Research</td>
<td>Agree, government should take the lead</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>GlaxoSmithKline</td>
<td>Agree, the</td>
<td>Agree, currently</td>
<td>NA</td>
<td>Agree with need</td>
<td>Agree with</td>
<td>Agree, already</td>
<td>NA</td>
</tr>
<tr>
<td>Interest group represented</td>
<td>1 Reward ‘can-do’, risk-taking &amp; success</td>
<td>2 Educate for a knowledge economy</td>
<td>3 Become a magnet nation for talent</td>
<td>4 Generate wealth from ideas &amp; knowledge</td>
<td>5 Excel globally</td>
<td>6 Network, collaborate &amp; cluster</td>
<td>7 Take an investment driven approach to government</td>
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<tr>
<td>Creative Resource &amp; Management Ltd</td>
<td>framework should be led by the Prime Minister</td>
<td>fund postgraduate scholarships in pharmacy</td>
<td>for effective intellectual property rights regime</td>
<td>potential of establishing an NZ pharmaceutical industry</td>
<td>doing so</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Super Nova Ideas Ltd</td>
<td>Agree with need to assess &amp; address ICT divide &amp; capabilities in NZ</td>
<td>Agree, suggests TV promotional campaign on innovation</td>
<td>Agree, suggests business incubators in all schools</td>
<td>Agree, educate decisions makers so innovative workers are not frustrated</td>
<td>Agree, suggest patents are an indicator</td>
<td>Agree, suggest business incubators are an indicator</td>
<td>NA</td>
</tr>
<tr>
<td>Technology Link Ltd</td>
<td>Agree, company directors should be technologists, not accountants &amp; lawyers</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>Agree, suggests use of their own software for managing &amp; coordinating investment</td>
<td>NA</td>
</tr>
<tr>
<td>Power Beat International Ltd</td>
<td>Agree with reducing regulation, compliance costs &amp; inefficient &amp; unproductive public sector</td>
<td>Disagree, reduce public sector &amp; free up talented workers for private sector. Favours polytechs over universities, education overrated</td>
<td>NA</td>
<td>Agree, but government bureaucracy has prevented this &amp; cannot pick winners. Public sector research is non-productive of wealth</td>
<td>Agree, but we are good at agriculture &amp; should not shift focus</td>
<td>NA</td>
<td>Agree, but most government spending inefficient &amp; non-productive of commercial outputs</td>
</tr>
<tr>
<td>Industrial Research</td>
<td>Agree, government should take the lead</td>
<td>NA</td>
<td>NA</td>
<td>Agree, NZ needs to move to markets where we have a</td>
<td>Agree, but potential is not in agriculture: biotechnology</td>
<td>NA</td>
<td>NA</td>
</tr>
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<td></td>
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<td>NA</td>
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</tr>
<tr>
<td>Harry Jekel Chartered Accountant</td>
<td>Agree on reducing compliance costs, focussed entirely on the administration of taxation</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>R&amp;D Solutionz Group</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>Agree with need for report, expressed some of their experiences commercialising innovation</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Exorus</td>
<td>Agree, minimise compliance costs &amp; regulation (for example, IRD requirements)</td>
<td>Agree, need diverse labour pool. Life Long Learning is key. Emphasises access for everyone to technology in schools as well as community level investment for older generations</td>
<td>Agree, should try to retain New Zealand talent</td>
<td>Agree with shift from raw materials to ideas as source of wealth, but implications include migration to Auckland from rural areas &amp; subsequent infrastructure issues</td>
<td>NA</td>
<td>Agree, &amp; advocates cross-disciplinary sources of innovation &amp; appropriate networking, both at industry level &amp; between rich &amp; poor (acknowledges poor people have ideas too)(^3)</td>
<td>NA</td>
</tr>
<tr>
<td>The Learning Web Ltd</td>
<td>NA</td>
<td>Agree, need investment in ICT in</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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</tbody>
</table>

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<td></td>
<td>schools &amp; for retraining of teachers to support &amp; promote it</td>
</tr>
</tbody>
</table>

**Individuals working in Businesses**

| Two employees of Agriculture New Zealand (Wrightson) | Agree, also if risk-taking leads to loss, it is a learning experience | Agree, encourage entrepreneurship regardless of age | Agree, encourage people to return (more experienced, globally connected) | NA | Disagree with national branding idea (guilt by association) | NA | NA |
| Rick Boven (then of Boston Consulting Group, now Director of the New Zealand Institute) | Disagree with risk-taking, argues for risk as calculated & selective, not reckless. Encourages idea of NZ’s competitive advantage. Support top entrepreneurs not all | Disagrees that broadband is an issue for NZ, but ensure NZers know how to make the most of ICT. Agrees to an extent about education, but must be a return on investment | Agree, make it pay to stay here rather than national loyalty, & track people while away, try to bring them back with good skills | Agree with commercialising intellectual property, suggests making royalties tax free to encourage international investment | Agree, but decisions about what in needs to be further investigated, strategy should be competitive edge | Agree, but does not think NZers are good at networking or collaborating, & need to develop skills. Clustering should be specialised rather than diverse | Agree, in focussing resources to develop talent, should be very clear about priorities |


Engels F. 1884, *The Origin of the Family, Private Property and the State*.


Interview with a senior minister in the Fifth Labour Government and the author, recorded and transcribed with Option B consent (unidentified as source), by telephone, August 25, 2010.

Interview with senior policy advisor at the Ministry of Economic Development and the author, recorded and transcribed with Option B consent (unidentified as source), date and location undisclosed.


Martin, J., 1981, “Economy, State and Class in New Zealand”, in *State Papers*, Department of Sociology, Massey University, Palmerston North.


Notes from a phone call with Rick Boven, Boston Consulting Group, 24 August 2001, p 9. SIAC included this as a written submission to SIAC on the Proposed Innovation Framework, provided under the Official Information Act 1982 by the Ministry of Research, Science and Technology.


O’Reilly, P., 2010, *Interview with author (recorded and transcribed)*, Faculty of Business and Law, Auckland University of Technology, Auckland, New Zealand, 1 December 2010.


Statistics New Zealand data series: see separate list at end of Reference List.


Steel, M., 2002, The Mark Steel Lectures - Volume 1, British Broadcasting Corporation, United Kingdom.


Volume One can be accessed at http://www.treasury.govt.nz/publications/briefings/1987i

Volume Two can be accessed at http://www.treasury.govt.nz/publications/briefings/1987ii


Volume Two can be accessed at http://www.treasury.govt.nz/publications/briefings/1987ii


Additional Sources

DATA SOURCES: Statistics New Zealand Data Series

Data sets from Statistics New Zealand, Wellington, New Zealand have been used through this thesis. The Statistics New Zealand website at www.statistics.govt.nz has a considerable amount of data available on it, with the majority of it freely available to users. However, it is continually updated. Rather than provide links to specific issues of data sets here (as are in the footnotes), pages for each survey are provided to ensure the most up to date information can be found. A list of Statistics New Zealand publications follows to guide the reader to hard copy sources of data mentioned in the thesis, which is particularly useful for older data and time series information.

Data surveys used in this thesis are:

Business Operations Survey:
http://www2.stats.govt.nz/domino/external/omni/omni.nsf/bf3c32a862ae07cd4c25656e000031c6/7274547dd83cf05fcc25770c0083433b?OpenDocument

Household Economic Survey:

New Zealand Income Survey:

Household Labour Force Survey:

Productivity Statistics:

Statistics New Zealand publishes this data in:
Hot Off The Press information releases, cover a wide range of indicators, including macroeconomic, microeconomic and social indicators. See: http://www.stats.govt.nz/tools_and_services/tools/information-releases.aspx

Key Statistics series is available in hard copy at most public and university libraries in New Zealand (it was preceded by the Monthly Abstract of Statistics series).

Labour Market Statistics series is available in hard copy at most public and university libraries in New Zealand, and contains detailed employment, unemployment and labour force data.

Websites of Lobbying Organisations mentioned in this thesis:

Business New Zealand www.businessnz.org.nz
Federated Farmers www.fedfarm.org.nz
NZ Amalgamated Engineering, Printing & Manufacturing Union www.epmu.org.nz
New Zealand Chambers of Commerce www.newzealandchambers.co.nz
New Zealand Council of Trade Unions www.union.org.nz
New Zealand Vice Chancellors’ Committee: www.universitiesnz.ac.nz/about/vice-chancellors
Post Primary Teachers’ Association www.ppta.org.nz
Public Service Association www.psa.org.nz
Tertiary Education Union www.teu.ac.nz