

INDUSTRIAL DEMOCRACY

A Case for Regulation or Deregulation?

A SUBMISSION TO THE
COMMITTEE OF INQUIRY
INTO INDUSTRIAL DEMOCRACY

NEW ZEALAND BUSINESS ROUNDTABLE

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SUMMARY

- "Industrial democracy" is a difficult concept to define. However, the underlying goal of better employment relations is to be supported. The pressure to legislate for greater communication and cooperation in the workplace is in fact an admission of the failure of our present centralised and adversarial labour relations system to foster good employment relations.
- New Zealand's poor labour relations performance - and the magnitude of its unemployment problem - reflect the disincentives and distortions created by the way in which our labour market is regulated. An important aspect of this is that the terms of employment can seldom be negotiated at the level of the individual workplace. And yet direct communication and negotiation at the workplace are essential if employment practices are to evolve to match the skills and interests of workers and the nature of their work.
- This poor performance was able to continue because New Zealand companies were protected in their output markets, and could pass the costs of poor employment relations on to consumers. The reduction of protection has meant that it is now consumers, rather than the government, who decide which companies will succeed.
- Success now requires an ability to combine the skills of workers and managers so as to produce goods and services at the price and quality that consumers want. In other words, competition is a new incentive for good management and employment practices. A similar incentive is provided by the increased competition that companies now face in deregulated finance markets. In effect, the reform process of the 1980s has exposed both companies and workers to the fact that inappropriate constraints in the labour market reduce their ability to compete and hamper the development of good employment relations.
- The danger of "industrial democracy" legislation is that, rather than dealing with these problems by means of reform of the existing system, new distortions will be introduced to the management and ownership of companies.

- In open market economies, business structures evolve in response to people's attempts to minimise the costs of handling risk, to match contribution with reward, and to match authority with responsibility. There is no one best way of doing these things, and for any one company the best way of doing them is likely to change over time.
- Because the resource requirements and risks of companies differ, different patterns of ownership and risk-bearing occur. For instance, we find some firms, such as life insurance mutuals, owned by customers, and others, such as professional partnerships, owned by workers. In neither case are large capital outlays typically required, so that the need for equity investments is relatively small. But there are special risks in each case. The long time period over which a life insurance contract may operate creates risks that can be handled more easily and cheaply by the policy-holder than by conventional finance or insurance markets. "Worker" ownership in professional partnerships maintains the quality of services by holding the providers of those services jointly accountable for them - legal partners, for example, can probably monitor each other better than shareholders could.
- However, the most common form of ownership is ownership by shareholders, because this enables managers to specialise in managing, provides access to considerable funds for investment in capital, encourages long-term investment planning, and distributes risk widely among people who can readily control it - most simply by buying and selling shares.
- Proposals for "industrial democracy" often seek to redistribute decision-making power (and income) away from shareholders and the managers that they appoint, towards workers. But if they do not at the same time redistribute accountability and risk towards workers, they will disrupt the incentive systems essential both to encourage investment and to ensure that the best kinds of investment occur. As a result - as in worker-managed companies in countries such as Yugoslavia - they will reduce productivity and ultimately the availability of jobs.
- Even relatively "mild" forms of "industrial democracy" legislation may have harmful effects. Compelling the sharing of strategic information may reduce the ability of companies to protect the innovative ideas that are crucial to their survival in competitive markets. Any form of delegated decision-making that drives a wedge between reward and effort or between the ability to make decisions and responsibility for their results will be both inefficient and unfair and will undermine the economy's ability to create jobs.

- It has also been suggested that "industrial democracy" should be implemented at an industry level and enable a "worker/union voice" in the determination of public policy. However, the former would reduce competition between companies, to the detriment of consumers, and impose the type of costs - such as lower productivity and fewer or inferior jobs - associated with any attempt at centralised decision-making. Legislated versions of the latter would be profoundly undemocratic, conferring on workers' representatives a privilege unavailable to the remainder of the voting public.
- An important lesson from our experience with centralised collective bargaining is that it is very easy to legislate *against* the things that make employment relationships work well. We must also recognise that these things are very difficult to legislate *for*. What we *can* do is ensure that our law protects the basic rights of employers and employees, and provides them with the means of pursuing whatever solutions are in their own best interests.
- This will inevitably require reform of the Labour Relations Act, aimed at giving workers choice as to how they will be represented and eliminating barriers to workplace bargaining and true democracy in union structures. It is thus our view that the underlying goals of "industrial democracy" cannot be achieved by any review constrained by the terms of this Act, and in particular cannot be achieved by the passage of additional legislation.
- We therefore recommend that the Committee of Inquiry advise the Government
 - to commit itself to a fundamental reform of the Labour Relations Act, and
 - to conduct a national referendum on the key issues in labour market reform.

"Proponents of industrial democracy assert that labor participation in the management of firms would replace conflict with cooperation. The crucial analytical error of this assertion derives from the failure to comprehend the social consequences of weakening the right of ownership. The right of ownership is, in fact, a social rather than a private institution. Its major social consequence is that the guidance of production is transferred from a few individuals (regulators, planners, and bureaucrats) with limited knowledge to a social (free market) process that relies upon and uses the knowledge of all."

(Pejovich, 1984, p.6)

1 INTRODUCTION

One of the important effects of the economic restructuring that New Zealand has undergone in recent years has been a recognition that our labour market arrangements are incapable of delivering the outcomes desired either by workers or by employers. In particular, they have not shown the flexibility needed to adapt to a challenging economic environment without imposing unacceptable costs in terms of unemployment.

The root of the problem is that a centralist, adversarial model of labour relations has been perpetuated at the expense of a cooperative approach to change and the prospect of continuing change. The notion of employment relations as a symbolic battleground between exploitative capital and defenceless labour has not, and never can be, conducive to the development of employment arrangements that can meet the varied needs of New Zealand workers, empower them to develop their diverse skills and talents, or devolve responsibility and reward effort.

In view of the tension that has characterised the New Zealand labour market, it is not surprising that the notion of "industrial democracy" should be attractive. But the term is a difficult one to define, and open to all manner of interpretations that are not necessarily consistent with the interests of workers.

One explanation of this difficulty - and one which has important implications for the analysis of the likely effects of "industrial democracy" legislation - is that it applies political terminology to what is fundamentally an economic relationship. In this it subtly perpetuates the myth that the employment relationship is essentially a political one, rather than an economic one, and is based on conflict rather than cooperation and interdependence. It implicitly depicts participation as only "meaningful" to the extent that it is "democratic" (political or quasi-political). Voluntary, contractual cooperation between employer and employee, to achieve outcomes beneficial to both, is subversive to this view of the world.

Confusing language should not, however, be allowed to obscure the crucially important issues raised by the notion of industrial democracy. The survival of New Zealand industry - and of jobs for New Zealand workers - depends on our ability to move away from an adversarial system of labour relations towards a system that enables employers and employees to cooperate to meet the exacting demands of their customers. This will only be possible where the interests and competence of individual workers are taken seriously by both employers and

unions, and where workers (and unions) correspondingly respect the interests of employers. In our view, this is the essence of "meaningful participation".

There is no single consultation or decision-making structure which we can confidently expect to yield "meaningful participation" wherever it is applied. We have no way of concretely measuring the "meaningfulness" of employment relations in a company, or of ranking companies according to their success in promoting "meaningful participation". It is important in interpreting the terms of reference that the Committee of Inquiry recognises that this means that it cannot expect to come up with a positive definition of "meaningful participation" (or, more generally, "industrial democracy"). What it can do, however, is identify the *conditions* - and in particular the legislative and regulatory framework - which will be conducive to the development of cooperative behaviour and mutual respect in employment relationships, empower workers, and ensure that they are fairly rewarded for their efforts. An important part of this is determining what barriers currently exist to the development of such good employment relationships.

The debate on "industrial democracy", wherever it has occurred, has produced a variety of proposals both about the form that "meaningful participation" by workers in the decisions that affect them might take, and about the need for government intervention to facilitate or assure such participation. An understanding of why different kinds of employment relationships arise, with different mechanisms for protecting the interests of workers - including formal participation mechanisms - is necessary if this debate is to be unravelled. This is the purpose of the second section of this study, which looks at the factors which shape employment relationships.

This analysis provides a basis for assessing the likely impacts of the different kinds of "industrial democracy" typically proposed at the firm level. These impacts are discussed in Section 3. Proposals for industry- and nation-wide "worker participation" are also assessed.

The fourth section considers the New Zealand context. Here a form of "industrial democracy" - in the political sense - arguably already exists, through the Labour Relations Act's regulation of collective bargaining. It is shown how in practice the Act erects barriers to "meaningful" participation.

Some conclusions and policy recommendations are set out in Section 5.

2 WHAT SHAPES EMPLOYMENT RELATIONSHIPS?

The briefest acquaintance with the way in which companies are organised makes it clear that there is no such thing as the "typical" company. Similarly, any survey of companies' employment and personnel policies will reveal immense variety in employment relationships. There is, however, sense in this diversity, in the form of common patterns of contracts and company policy that have emerged as companies set about finding the best ways of resolving common problems.

In order to understand why employment relationships take the form they do, why personnel policies differ between companies, or why worker-owned and run companies prevail in some industries and not in others, it is necessary to isolate those factors which are critical in determining the shape both of companies and of the contracts of which they consist.

The simplest way to think about a company is as a collection of resource owners working together to provide consumers with a particular good or service (or range of goods and services). Its success will depend on its ability to supply that good at a price and a quality that suits the consumer better than anyone else's product. *All* those supplying resources to the company, be they investors, materials suppliers or workers, are thus ultimately at the mercy of the consumer. Their survival as an entity, and the returns that they can get for their resources, depend on how efficient they are at collaborating - both in the physical production process, and in managing their relationship with each other and with their customers. In other words, it depends on their success in minimising the combination of their production and organisational costs.

The nature of these costs will vary according to what it is that the company is producing. As a result, the relationship between the different "collaborators" will also vary. This will be reflected in differences in the contracts - whether written or implicit - that they hold with the company. The key factor determining the overall shape of the company is which of the resource suppliers assumes ownership of the company as a whole. Ownership carries with it the right to the residual profits or losses when everyone else has been paid for the resources that they have committed to the company. Owners thus bear the residual risk associated with the company's activities. Their ability to control this risk in turn rests on their right to control the overall activities of the company, whether directly or by employing managers.

Correspondingly, the owners are the one party common to all the contracts that make up a company¹.

Which of the various contributors to a company's activities will be in the best position to assume the rights and risks associated with ownership will depend on the costs of different ways of putting together the contracts between them². Thus in market economies we find mutual life insurance companies where ownership is vested in the policy-holders, since this permits risk-pooling without imposing the costs of risks associated with long-term contracting. We find examples of producer cooperatives, such as dairy cooperatives owned by the farmers who supply them with milk. Similarly, we find instances of worker ownership - most prominently in the "professions", but also, less commonly, in the manufacturing sector^{3,4}.

By far the most common form of ownership in developed market economies is, however, ownership by those supplying the company with equity finance - what may be termed "investor cooperatives". The advantages of ownership by large bodies of dispersed shareholders centre on the ability to draw on a broad base of investors (both present and future), each capable of diversifying their risks by holding a broad portfolio of shares, with management responsibilities delegated to individuals who have an ability to manage (rather than simply the resources to invest). This enables organisation-specific assets to be purchased (both tangible capital goods and intangible assets such as research and development or advertising), and specialisation in management. The ready transferability of shares enables

1 For an elaboration of this point, see, for example, Alchian and Demsetz (1972).

2 For an elaboration of this point, see Hansmann (1988).

3 Hansmann (1988), for example, records examples in plywood manufacture in the United States, where the high costs typically associated with collective decision-making by workers appear to be reduced by substantial homogeneity of skills and tasks.

4 Jensen and Meckling (1979) suggest a number of reasons why on average labour ownership might be expected to yield poorer outcomes than ownership vested in equity investors. These include:

- the necessity in the vast majority of firms for investing in intangible assets (research and development, the establishment of distribution systems or advertising, for example), which cannot be rented but rather require some form of equity investment;
- the truncated time horizons of worker managers, whereas equity investment, for example through the share market, makes for a greatly extended time horizon conducive to long-term planning and investment;
- collective good problems which arise when it comes to the sharing of cash flows among workers;
- the non-marketability of workers' rights in cash flows (leading to a reduced capacity for handling risk), and
- problems in establishing acceptable control procedures (exemplified by the political problems arising within Yugoslavian worker cooperatives).

In this context, it is interesting to note that in areas "traditionally" characterised by a high degree of worker ownership - the legal and accounting professions - a number of New Zealand companies have recently moved towards adopting shareholder ownership.

the value of the company's activities to be constantly monitored, and provides clear signals for investment⁵.

So far, discussion has concentrated on which of the various resource owners involved in a company will be in the best position to bear its residual risks, and thus to assume the decision-making prerogatives that we associate with ownership. This helps to answer the question as to why "employment" relationships exist - why in most companies suppliers of labour delegate some of the right to decide how that labour will be used to owners and their managers. (The alternative would be to sell the fruits of that labour directly, as in an independent contract, or for workers themselves to operate as managers, as in a workers' cooperative). In answering this question, an insight is gained into the likely effects of, for example, legislating for worker representation on company boards, or redistributing decision-making prerogatives in favour of workers through an extension of collective bargaining.

To understand other issues raised in the "industrial democracy" debate, a second question needs to be asked: Taking the corporate form as given, what determines the nature of the relationship between employer (or, more accurately, other resource owners) and employee? How are the rights of the employee in his or her labour protected against potential abuse by other resource owners? How are the rights of other resource owners protected against potential abuse by workers? How is full use made of employees' diverse - and dispersed - knowledge and skills? How is an appropriate amount of investment in training ensured and safeguarded? How are problems of monitoring effort overcome?

To answer these questions, it will be helpful to abstract, for the meantime, from the kind of legislative framework that operates in New Zealand, as the constraints imposed by this framework are likely to have had a profound effect on the nature of employment relationships. Instead, we may hypothesise a situation in which labour, company and contract law simply delineate the property rights of resource owners (the investor in his or her capital, the worker in his or her labour, and so forth), afford basic protections for these rights, and facilitate contracts between resource owners, for example by providing legal means for the determination of fair contracts, and for enforcing such contracts.

Given such basic rules, employment contracts - whether written or unwritten (and contracts typically are a bit of both) - will vary according to such factors as the uncertainty in which the parties to them operate, the extent to which the employee makes investments (for

⁵ For an elaboration of this point, see Fama and Jensen (1983).

example in training) which tie him or her to the company (and the company makes investments in the employee), the amount of responsibility desirably delegated to the employee and the means available for assessing his or her efforts, and so on. Contracts characterised solely by the right of managers to exercise authority over workers in exchange for a wage payment, with workers protected primarily by their right to quit, are likely to be relatively rare. Most employment relationships depend rather on the exercise of initiative by both parties and, at least in a competitive environment, contracts and/or personnel policies might be expected to reflect this.

The preeminent protections of employees' interests will also vary. In some situations the threat of quitting (leaving the employer to find and train a replacement) will predominate; in others there will be an emphasis on procedures and structures for contract renegotiation or the consideration of grievances⁶. Recourse to the courts will typically be rare, in particular because knowledge about the complex workings of individual employment relationships and the conditions of individual companies are difficult to impart to outsiders - making legal solutions too costly for all concerned.

As explained above, the absolute "right" of employees to make *strategic* decisions will be related to the extent to which they act as owners, sharing in the residual risks associated with the company - that is, not just the risks associated directly with their employment, but the broader risks associated with the company as an entity. This may, of course, be achieved where workers are also the predominant shareholders, but the cases in which worker ownership is optimal are likely to be rare.

The risks implicit in employment relationships - like the risks borne by all resource suppliers other than the residual claimants - are categorically different from these company-specific risks, despite the fact that the fortunes of employees are inevitably linked to the fortunes of the company. The mechanisms for handling these risks must therefore also differ from the mechanisms available to the residual claimants.

This is perhaps best explained by thinking of the employment contract as a contract between the supplier of labour and the residual claimants. The latter undertake to bear the risks of the enterprise as a whole, and, within the written or unwritten terms of the employment

⁶ Thus it may be noted, for example, that in "complex" employment relationships, where uncertainty is pervasive and both employees and employer have invested heavily in their relationship with each other, formal employment contracts, at least in countries where the labour market is only lightly regulated, concentrate not on actual conditions or rates of remuneration, but on procedures for determining and adapting these rates and procedures, and for resolving differences.

contract, come to some agreement with the employee about the risks that it is appropriate for the employee to bear - for example, as an incentive to performance - and about the risks that the company and employee might cooperate to handle - for example, occupational health and safety risks.

Because employment relationships depend so crucially on interaction and mutual understanding, *they are in their essence cooperative*. The *institutional* basis for participation - for drawing out cooperation - may vary, sometimes taking the form of explicit provisions in employment contracts, for example for consultation mechanisms, sometimes being developed through a company's personnel policy, sometimes being based on implicit understandings about acceptable behaviour. The "success" of an employment relationship will be determined by the capacity of this combination of explicit contractual terms, explicit and implicit personnel policy, and the incentives arising from the combination of the two to facilitate the kind of cooperative relationship - or effective participation - between employees, and between employees and managers, necessary to the effective functioning of the company. In this process, productivity improvements and improvements in the "self-worth" of workers will be complementary.

The following section discusses the sorts of mechanisms that might evolve for "formalising" worker participation - both conferring formal recognition on the essentially participatory nature of the employment relationship, and facilitating (reducing the costs of) the kind of information flows and consultation required to make that relationship work.

3 PARTICIPATION MECHANISMS: EVOLUTION OR IMPOSITION?

"A striking fact about industrial democracy is that it cannot be effected on any significant scale voluntarily. Without fiat, codetermination would be virtually nonexistent. Given a choice, potential investors will not voluntarily put their wealth in the hands of codetermined firms; and this includes labor itself, even though many unions in the United States could easily do that just by buying entire companies with their pension funds.

"The fact that this system seldom arises out of voluntary arrangements among individuals strongly suggests that codetermination or industrial democracy is less efficient than the alternatives which grow up and survive in a competitive environment... Of course, it is always possible that the frailty of industrial democracy is due to some 'deficiency' which arises when individuals are given broader freedom in choosing organizational forms, but it seems reasonable to place the burden of proof on proponents of codetermination in this exercise."⁷

The analysis presented in Section 2 suggests that, given relatively freely functioning markets, variety might be expected both in the ownership structures of firms (and hence the allocation of strategic decision-making power between different resource owners, including workers), and in the structure of employment relationships within firms. This would in turn be reflected in a variety of mechanisms for information sharing, and allocation of responsibility for decisions about the day-to-day running of the company.

These mechanisms will be selected according to how well they fit the particular conditions of each company - the way in which specialist information is distributed among its members, the capacity of individual members to influence sectional or company-wide outcomes, and the relative costs of different ways of mobilising diverse skills and coordinating diverse incentives. If such mechanisms are more costly than is justified by the benefits that they yield (whether these benefits are measured in terms of improved workplace atmosphere and worker self-worth, or more immediately in the productivity performance of the firm), they are unlikely to survive. A crucial factor in practice in this cost:benefit profile will be the success of different structural and contractual arrangements in matching control over decisions, both operational and strategic, with accountability for their outcomes.

The incentive faced by managers (on behalf of owners) to develop - and constantly reassess - an approach to personnel matters that draws on the diverse skills of workers and is responsive to their interests depends on the competition that the company faces, not only in markets for labour, but also in markets for capital, and in its output markets.

⁷ Jensen and Meckling (1979), p. 473.

Where the labour market is open and flexible, companies will have to compete to attract and retain workers. Companies which are unresponsive to workers' interests (whether individually or collectively voiced), which offer only limited opportunities for worker self-fulfilment (for example through clear career paths, access to training or the delegation of responsibility), or which are slow to reward worker effort and initiative, will be unable to retain the kind of workers they need to succeed in competitive output markets. In this way, an open, competitive labour market is a vital means of protecting workers against "exploitative" pay or conditions of employment.

Where companies must compete for the favours of both domestic and international consumers, personnel policies and employment contracts which encourage high productivity and innovation are essential. In this sense, it is ultimately *consumers* who are the "employers"; managers or investors are not free to pursue their own interests at the expense of good employment practice. Competition in output markets thus also serves as a check on companies' performance in employment relations.

In turn, the willingness of savers to invest in a company will depend both on its performance in output markets and on the matching of decision-making power with accountability in its control structures. On the operational side, companies where decision-making and accountability for decision-making are delegated in accordance with skill will, to the extent that this raises productivity, be attractive prospects for investment. However, when it comes to strategic decisions that impinge directly on the long-term value of the company, savers will be unwilling to invest in companies where, for example, worker participation in strategic decision-making is not matched by a share in the company's residual risks - in other words, where the privileges of ownership (including the right to affect strategic decisions) are not matched by the responsibilities of ownership.

The presence of competition in these three markets may, then, be expected to induce an approach to employment relationships on the part of owners that promotes both efficiency - in terms of general productivity and of the activities of individual members of the company - and equity - in terms of the recognition and fair treatment of diverse interests, the matching of effort with reward, and the matching of authority with accountability. Common patterns in employment relations may be expected to emerge, as companies and workers learn by imitation and by doing. However, diversity will inevitably remain as companies and workers seek new and better ways of handling diverse production processes, skills and preferences. Further, the "best" approach for any company or body of workers is unlikely to remain

constant over time. That "good employment practice" can have no one definition either across companies or over time should ring warning bells for would-be legislators on such topics as "meaningful worker participation in the decisions that affect their working lives".

The clearest indication we can have that a company's approach to its relationship with its workers affords "meaningful participation" in any useful sense is that it can survive the buffeting of its output markets and labour and capital markets. This suggests that the primary target of proponents of "industrial democracy" should be factors dampening competition in these markets. In New Zealand, where significant efforts have been made to enhance competition in output and capital markets, this should lead to a particular concern with constraints on the fair and efficient operation of the labour market.

In this sense, labour market reform can be argued to be a precondition for tackling deficiencies in companies' employment policies and in the structures which they develop for employee participation. The ways in which inappropriate interventions in the operation of labour markets in New Zealand close off possibilities for "meaningful participation" are discussed in the following section.

If, instead, particular modes of participation are either imposed or encouraged by legislation, damaging effects are possible, in terms of both efficiency and equity. These effects will differ according to the level at which the interventions apply. (The Committee of Inquiry, for example, has been asked to consider the case for "industrial democracy" legislation not only at the company level, but also at an industry and national level.) The remainder of this section considers the likely effects of legislation at each of these levels, against a benchmark of the outcomes that would be likely in a relatively unconstrained market.

"Industrial Democracy" in the Workplace

Even at the level of the workplace, it is unclear what "industrial democracy" legislation might consist of. Boxall (1989), for example, distinguishes between participation in operational decision-making ("task-related participation") and participation in those essentially strategic decisions typically reserved to managers and/or directors ("policy-related participation")⁸. Policy dealing with the former category might encourage or require, for example, the development and strengthening of career paths, the institution of quality circles, or devolution of operational decision-making to autonomous or semi-autonomous work

⁸ It should be noted that Boxall includes some operational decisions in the latter category.

groups. Policy dealing with the latter category would focus on decision-making beyond the worker's immediate employment responsibilities, dealing with such issues as joint consultative committees of managers and workers, formal mechanisms for sharing strategic information, profit-sharing, board membership for workers, an extension of the reach of collective bargaining or worker cooperatives.

Legislation, whether facilitative or directive, will have fundamentally different effects according to whether it is concerned with "task-related" or "policy-related" participation, in that whereas the former focuses essentially on the "internal" operation of the employment relationship, the latter looks at an extension of employee involvement beyond the confines of this relationship. Analogously, whereas legislation affecting "task-related" participation will affect the rights of other participants in the company only *indirectly*, legislation for "policy-related" participation will affect these rights *directly*, redefining their scope; the former affects efficiency and equity outcomes within a broadly given organisational form, while the latter alters that form.

(i) task-related participation

Even intervention concerned solely with encouraging specific "acceptable" forms or levels of task-related participation could have a significant impact on efficiency and equity in a company. As will be clear from the discussion in Section 2, differences in the way in which companies run their employee relations, and differences in structures for sharing responsibility, exist for very good reasons; they reflect different ways of catering for diverse interests, promoting productivity and ensuring fair treatment. Either incentives or directives to alter arrangements that employers and employees have found to be fair and efficient will inevitably result in costs to both.

If, despite the best of intentions, legislation drives a wedge between reward and effort, or authority and accountability, it will generate resented inequities. If it dampens incentives to productivity, it may lead to a loss of market share and thus job security. The more binding the legislation, the higher the costs will be for companies where "best practice" diverges from the legislated norm. The stronger the competition faced by such companies in output markets, the more damaging the likely effects will be. This should raise particular concern in New Zealand, where the ability of many companies to adjust and survive is already hampered by constraints on their ability to negotiate productivity-enhancing agreements with their workers. For example, the national award system is a major barrier to agreements of this type, as unions are typically unwilling to cite employers out of awards.

(ii) policy-related participation

In its "milder" forms (for example agreements about or arrangements for information-sharing), legislation for policy-related participation might be expected to have no significantly greater effect than legislation for task-related participation. However, even here there is a need for awareness among policy-makers that information, and information-sharing, are not costless, and that the need for companies to protect information - in particular the information relevant to strategic decision-making - is crucial to their ability to compete. (This is most concretely evidenced by the patents and copyrights used to protect innovative products, but is equally relevant for innovative ideas. In the latter case, formal, patent-type protection is not possible, so secrecy becomes a crucial means of protection⁹.) Because information is more difficult (and hence costly) to protect the more dispersed it is, compelling information-sharing for the sake of information-sharing is likely to impose significant costs in cases where it does not contribute significantly to - or indeed threatens - the effective functioning of the company.

Usually, advocates of "industrial democracy" legislation are interested in more than information-sharing; the intention is rather to provide a legislative mechanism for redistributing decision-making power and income from shareholders to workers. Various approaches are possible, ranging from an extension of the domain of collective bargaining to "codetermination" (worker representation at board level) and, at the extreme, worker management (for example along the lines of "market socialism" in Yugoslavia).

Here rights not only in intellectual property, but also in the other resources committed to the company, will be altered. There are two aspects to this. First, the rights of other "non-owner" resource suppliers will be affected as workers come to influence decisions about contracts and policies other than those that directly affect them. Secondly, and more significantly, the rights of owners, those who bear the residual risks associated with company policy, are directly curtailed. Where this is not accompanied by a proportionate sharing of the residual risk - that is, where workers do not take a share in ownership, and hence risk-bearing, that matches their decision-making power - the value of ownership, and hence the incentive to invest, will be reduced.

An additional problem arises in determining fair processes for the representation of workers where there is collective bargaining or worker representation at board level. The New

⁹ In such situations, employment contracts will often include "confidence" clauses, in which employees bind themselves not to release valuable information to third parties. These clauses remain, however, costly to sustain.

Zealand experience with collective bargaining affords ample experience of this problem, including some clear cases of workers' and unions' interests being fundamentally at odds. For example, in the 1987/88 wage round Independent Newspapers Limited printers went on strike against their *union* for its rejection of their agreement with the company on conditions for the adoption of new technology. Female Air New Zealand stewards finally gained recognition early in 1989 for the fact that their (male-dominated) union had over many years collaborated in blocking their promotion opportunities. More recently, a voluntary agreement between an Auckland engineering company and its employees to switch a Friday night to a Sunday night shift without applying penal rates (which had been operating successfully for nearly two years) was overturned in a case brought to the Labour Court by the Engineers' Union.

These cases suggest that the constraints present in the labour relations system in New Zealand are increasingly creating a *real* adversarial relationship, not between employers and workers, but between groups of workers and their representatives in inappropriate union structures.

Even where workers are able to exercise some choice as to who will represent them in bargaining, or on a board or consultative committee, there may be significant (essentially political or democratic) problems in keeping those representatives "honest", or ensuring that they take account of divergent employee interests. (In the case of shareholders, by comparison, elaborate protections exist against misrepresentation of their interests by directors, through company law, takeovers, and the ease of "voting with their feet" - that is, selling their shares.)

Where codetermination legislation has been attempted in practice, the adverse effects on shareholders in particular have been reflected in attempts to circumvent the legislation. For example, codetermination laws (beginning with the Montan Act of 1951) requiring parity between worker and shareholder directors, applied to companies in the mining and steel industries in West Germany after World War II, were widely evaded by means of subtle and not so subtle rearrangement of their activities, inducing the government to introduce further legislation, in the form of "Codetermination Protection Acts" aimed at preventing avoidance. In other industries where minority worker representation on boards was required by law, evasion was also commonplace, often by means of the creation of "executive" committees deliberately excluding labour.

The problems posed by the partial redistribution of property rights through, for example, an increased domain for collective bargaining or codetermination laws raise questions as to why

there should not be more fully-fledged worker ownership; why do we not see more firms owned by workers and renting the capital goods required for production? The answers to these questions lie in the analyses drawn on in Section 2. The situations in which suppliers of labour are better placed than other resource owners to bear the residual risks associated with a business enterprise, and to make long-term, strategic decisions about its activities, are relatively rare, particularly in mature industries.

As a consequence, imposition, or legal encouragement, of worker ownership is likely to lead to higher costs of risk-bearing, less effective long-term decision-making, and in general a lower quality and quantity of investment (and hence job creation) than would occur in a legal environment neutral with respect to corporate form. (For example, Jensen and Meckling (1979), in their assessment of labour-managed companies in Yugoslavia, point to the costs imposed by politicisation of the process by which investment decisions are made and the disincentives for workers to undertake investments with long pay-back periods.) If coverage of legislation for worker ownership were incomplete, a disproportionate amount of investment could be expected to be diverted to the uncovered sectors. In either case, the costs would eventually be borne by workers both directly (through lower rates of pay and reduced access to employment) and indirectly, in their role as consumers (through lower product availability or higher product prices). Nor will such efficiency and thus income losses necessarily be compensated for by an increase in equity - the distributional results may in fact be quite arbitrary, resting on political favour rather than economic contribution.

The kind of redefinition of property rights implied by "industrial democracy" legislation is ultimately inconsistent with the maintenance of the prosperity that we associate with developed market economies:

"Ownership provides that essential link which industrial democracy seeks to break. And so we are brought back to the irresolvable dilemma of industrial democracy and the contradiction at the heart of market socialism... - the dependence of vigorous, competitive markets on clear, steady and unambiguous rights of property and the impossibility of achieving 'market solutions' which ignore this fact."¹⁰

"Industrial Democracy" at the Industry and National Level

Particularly within the trade union movement in New Zealand, considerable emphasis has been placed on industrial democracy beyond the confines of the firm, through consultative

¹⁰ Maley (1985), p. 7.

processes or joint decision-making at the industry and national level. Douglas (1989), for example, argues for industrial democracy that involves:

- "- at a national level, a worker/union input on economic and social policy;
- at industry level, a worker/union input on development planning and employment creation, training and skill formation, research and development, health and safety etc;
- at enterprise (company) level, a union/worker input on business plans, feasibility studies, and workplace issues;
- at workplace level, a union/worker input on organisation of work, new technology, health and safety, equal opportunities, training and skills formation etc."

This is consistent both with central union advocacy of a restructuring of collective bargaining away from occupational towards industrial awards and agreements, and with the interest shown in negotiation of a union-government "compact".

In an increasingly decentralised economy, where the ability to use dispersed skills and information innovatively is at a premium, and where competition between companies is encouraged as a means to ever better service for consumers, it is difficult to see that prescribed forms of consultation or joint decision-making at an industry level are meaningful - or, to the extent that they can be rendered meaningful, anything other than damaging to the interests of consumers, and thus long-term job security, and those workers whose interests differ from those of their representatives at the industry level.

Indeed, the motivation of many of the Government's policy initiatives in other markets has been to reduce the potential for the kind of collusive activity that proposals for industry-level consultation appear to condone. (It may be noted that, where the role of antitrust policy in controlling the activity of unions has been discussed, the one issue on which there appears to be widespread agreement is that collusion between unions and employers at the expense of consumers should be brought within the realm of antitrust¹¹.)

The inappropriateness of such "democratic" consultation at a national level is equally marked. It is advocated quite openly by some as a means of reinstating the kind of national economic planning rejected this decade not only in New Zealand but also to some degree in all Eastern bloc economies with the possible (and undeniably perverse) exception of Romania. The attraction, both political and economic, of *perestroika* and similar efforts at

¹¹ See, for example, Campbell (1986).

decentralisation lie in their emphasis on putting decision-making back in the hands of those who have the information, competence and incentives to make those decisions well.

Consultative procedures of the type advocated in New Zealand, and related versions of a "compact", are features of a corporatist or collectivist economic system rather than a democratic market economy. Proposals to prescribe or legislate for a worker/union voice on public policy, for example, confuse the democratic rights of citizens and representative organisations with the role of labour market participants (and seek the establishment of a privileged status which would be denied to other citizens or organisations).

In the "western" economies in which a centralised consultative approach has been attempted, such as Sweden and Austria, a strong case may be made that any favourable macroeconomic performance has been due to quite different factors¹². Further, it may be argued that what will eventually undermine the "success" of these economies are the rigidities that a centralistic approach to labour market issues necessarily imposes. As the OECD's Dahrendorf Report emphasised, labour market flexibility is a prerequisite in any economy for the effective functioning of other markets:

"Labour markets are important for the growth process itself; as the level of economic activity increases, they function better, and as they function better, the level of economic activity increases further. ...[F]lexibility then serves not only the processes of adjustment, but also innovation, equity and a higher quality of life... In this sense, labour market flexibility is a key to both economic efficiency and social progress."¹³

In the case of Yugoslavia, which Burton (1987) describes as "unquestionably the most thorough-going and longest-established system of industrial democracy of any country in Europe", real wages have fallen persistently over the last decade, while inflation has typically been higher than anywhere else in Europe - this in spite of centrally-sponsored investment programmes amounting to as much as 35 percent of GDP per annum. Burton attributes this poor performance primarily to the emasculation of the role of the entrepreneur through enforcement of worker management¹⁴.

12 See, for example, Burton (1987).

13 Organisation for Economic Cooperation and Development (1986), p. 8.

14 This accords with Jensen and Meckling's (1979) assessment of the likely effects of the Yugoslav system.

4 THE NEW ZEALAND CASE: BARRIERS TO PARTICIPATION

The policies that companies adopt for employee relations are necessarily shaped by the regulatory and government policy environment in which those companies find themselves. Thus, while it is impossible to define a priori what "good practice" in employee relations would look like, whether as a test of current performance or as the goal of a legislative programme, it *is* possible to determine whether the existing policy framework provides incentives or disincentives for companies to go searching after good employment practices. In other words, the surest guide as to whether New Zealand companies are performing as well as they should be in terms of ensuring "meaningful participation" is the legislative ground rules by which they must operate.

The single most important piece of legislation in this regard in New Zealand is the Labour Relations Act 1987. Through the limitations that this legislation imposes on how employees may be represented in their relationship with their employers, and on how negotiations between them may be conducted, the ground rules are set for monopoly unionism, with little incentive for unions to respond to diversity in the interests of workers, and every incentive for centralisation and adversarial conduct. Correspondingly, the Act provides little room or incentive for employers to develop a cooperative relationship with their workers; in this it may be seen as condoning poor employment relations practices.

An important part of the problem arises from the absence of any right on the part of employees in an enterprise to decide whether they will be represented by a union at all in their dealings with their employer, and, if they do want such representation, which union to join. In this regard, a recent Insight New Zealand public opinion survey¹⁵ suggests that while a clear majority of New Zealanders would like to be able to choose which union would represent them - and would favour unions which operated at an enterprise or workplace level - most would still join a union in a voluntary unionism regime. The important issue here is choice - and the increased pressure on unions to adapt to diverse employee interests and workplace needs that choice implies.

A feature of the Labour Relations Act was the inclusion of a number of requirements and procedures aimed at making New Zealand unions more democratic and accountable. However, these rules are in effect poor substitutes for the powerful constraints on union behaviour - and

¹⁵ See: Insight New Zealand (1988).

incentives to operate democratically - afforded by voluntary market mechanisms and by the reinforcement of the right of an individual worker to decide how he or she will be represented. It is the absence of these basic safeguards that leads to prescriptive rules which attempt, not always successfully, to mitigate the authoritarianism and even corruption that, throughout the world, has often characterised unions.

The adverse effects of a lack of choice - and hence true accountability of unions and union officials - are reinforced by the union structures that prevail in New Zealand. A tradition of national, occupational- and craft-based unions, bolstered by the concept of blanket coverage¹⁶, the inability of employers (as opposed to unions) to opt out of awards into separate agreements, the minimum union membership requirement of 1000¹⁷, and resistance by union officials to the erosion of centralised power have all militated against the development of enterprise-based bargaining and unionism.

Historically, both companies and workers have been sheltered from the adverse effects for workplace relations, productivity and job security that excessive centralisation perpetuates¹⁸. The reforms of the 1980s, liberalising product and financial markets, have exposed many companies and workers to the true costs of truncated rights and centralisation in the labour market. The human costs in terms of unemployment have been immense. But the prospects for a reduction in these costs - in effect, a restoration of workers' rights - will remain limited while barriers remain to solutions at the level of the enterprise or workplace.

The barriers posed to the development of participation mechanisms by New Zealand's restrictive labour market legislation are not, of course, completely binding. A number of companies, especially, but not exclusively, companies with strong international connections, have developed sophisticated approaches to management and employment relations that afford means of information-sharing, consultation and devolution of responsibility, and elaborate mechanisms for the protection of employee rights. It may be noted that perhaps the most commonly cited examples - such as Nissan and New Zealand Steel - emphasise the role of enterprise-level bargaining (as opposed to coverage by national awards) in enabling these systems to develop.

¹⁶ Blanket coverage implies the automatic extension of the terms of awards to all companies employing workers covered by a particular union's rules and by the coverage clause of an award, whether or not they have participated directly in the negotiation of the award.

¹⁷ A number of the smaller unions in New Zealand were regarded as among the most democratic and responsive to the concerns of their members.

¹⁸ A parallel may be seen in Western Germany, where strong constraints on bargaining arrangements are "compensated for" by a highly developed system of industry subsidies and welfare payments (see Soltwedel and Trapp, 1987).

One area in which the barriers to effective employee participation posed by the broad legislative environment are particularly clear is that of occupational safety and health. Much has been made of the failure by many employers to adopt schemes for employee consultation on workplace health and safety issues voluntarily. However, as the Business Roundtable has argued elsewhere¹⁹, this must be seen in the context of the disincentives to effective workplace solutions to health and safety issues posed by the Accident Compensation Scheme and the separation of health and safety issues from the rest of collective bargaining. In other words, limited voluntary adoption of consultation on health and safety issues reflects not some fundamental recalcitrance on the part of employers, but rather strong disincentives in the Accident Compensation Scheme and the Labour Relations Act to consultation, negotiation and the development of workplace solutions.

Recognising the need for some degree of decentralisation if the necessary flexibility is to be achieved in the labour market, the Council of Trade Unions has recently been advocating a move to bargaining structures on industry, rather than occupational lines. This was the ostensible intention of proposals in the 1987/88 wage round for the division of the Metal Trades award into separate industry awards. However, while this might do much for the ability of companies in any one industry to collude, it is unlikely to do much for individual workers (particularly unemployed ones) or for overall productivity.

Industry-based awards are likely to be as unresponsive to regional variations, differences in technology and differences in worker preferences as national awards. They would do little to improve the communication and trust between employers and employees that is necessary for innovation and, in some cases, survival. Companies would not be willing to disclose information that might be valuable to their direct competitors. Industry awards would continue to restrain competition by employers to attract and retain workers, whether through direct remuneration, attractive conditions or access to training and well-developed career paths. They would also limit employers' ability to devise schemes to price the low-skilled, or the unemployed in relatively depressed regions, into jobs. In other words, the degree of centralisation implied by industry awards would inevitably be at the expense of workers - employed and unemployed - as well as employers.

The inadequacies of industry awards are illustrated by the difficulties experienced in the meat industry which has operated under an industry award for many years. Employers in the

¹⁹ See: New Zealand Business Roundtable (1988).

industry are now striving to replace the award with a series of more appropriate plant agreements.

For similar reasons, "industrial democracy" at an industry level, while doubtless a gratifying experience for those who end up around the conference table, is unlikely to yield benefits for individual workers, and, to the extent that it wastes resources or reduces the scope of action of individual companies, it is likely to limit the opportunities available to those workers.

The terms of reference for the Committee of Inquiry on Industrial Democracy specifically require that its recommendations be consistent with the strategy of the Labour Relations Act. The strategy implied by the actual provisions of the Act as it stands is by any account inimical to the development of good workplace relations - of trust and communication, of cooperative solutions to shared problems, of responsiveness to individual needs and abilities. This would appear to create considerable problems for the Committee.

On the other hand, Ministerial statements have frequently interpreted the Act in a quite different way, depicting it as promoting decentralisation, greater fairness and efficiency in employment contracting, and associated benefits in terms of productivity, growth and general welfare. This highlights a more general problem of inconsistencies in statements made by the Minister of Labour, some of which appear to rest on a view of employment relations as fundamentally adversarial and requiring centralist solutions, while others appear to adopt a more contemporary approach, emphasising the interests of labour market participants with direct and immediate relationships in finding ways of promoting efficiency, equity and cooperation, without extensive government intervention²⁰.

If facilitating direct and accountable relationships and promoting fairness and efficiency *were* the genuine goals of the 1987 reforms, it may be argued that they have not been met, and are indeed unlikely to be met without further substantial reforms²¹. In other words, compliance with the intended strategy of the Act, as articulated by the Minister of Labour, would imply reforming the Act. The ability of the Committee to make a meaningful contribution to the quality of employment relations in New Zealand may be seen as resting on its recognition of this inconsistency.

²⁰ An example of the former is the Minister's speech to the New Zealand Labour Party Industrial Affiliates Council in April 1989 (Rodger, 1989). The latter is exemplified by his proposals for the reform of pay fixing in the state sector (Rodger, 1986).

²¹ For a broader analysis of these issues, see New Zealand Business Roundtable (1989).

5 CONCLUSIONS

If economic theory and the experience of other countries with "industrial democracy" programmes suggest that "meaningful participation" by workers - as a goal in itself or as a means to general economic prosperity - is difficult, if not impossible, to legislate for, the New Zealand experience demonstrates that it is very easy to legislate against. This has important implications for the Government's current inquiry.

New Zealand's existing labour market legislation may be seen as an attempt to induce one version of "industrial democracy" - that is, participation through collective bargaining structures. It has not, however, been demonstrably successful in generating "meaningful participation" by workers. New "industrial democracy" legislation, grafted on to this base, is unlikely to generate progress towards such "meaningful participation". Indeed, depending on its form, it could reduce the ability of individual workers to influence their relationships with their employer and fellow workers, and threaten job security. In other words, legislation is unlikely to deliver the desired benefits, and may well deliver unintended costs.

More fundamentally, the goals that underlie the notion of "industrial democracy" - the desire to empower workers to enter and conduct employment relationships in accordance with their own best interests - cannot be met by a review process constrained by the current legislation (in the words of the terms of reference, "within the context of the labour relations strategy contained in the Labour Relations Act"). The current legislation favours the interests of the existing union hierarchy over the interests of workers. Its sanctioning - and encouragement - of adversarial labour relations is fundamentally incompatible with cooperative, responsive employment relationships. If, therefore, a system is to be developed in which the interests of workers, in all their diversity, are given priority, key provisions of the current legislation will need to be abandoned.

The primary recommendation of this study is, therefore, that the Government commit itself to a fundamental reform of the Labour Relations Act.

The goal should be a system which defines and affords protection for the basic rights that workers hold in their labour, and that facilitates the formation and development of

employment relationships by, for example, providing the legal mechanisms for determining the fairness of employment contracts, and enforcing these contracts²².

The critical issues to address from the point of view of facilitating "meaningful participation" include the right of workers to decide whether or not to join a union, and the right of workers to decide which union will represent them, and how (including issues such as minimum union size and latitude for enterprise or workplace bargaining). Reform aimed at reinstating these fundamental rights, and thus reintroducing strong competitive checks on the internal democracy of unions, would in turn greatly reduce the need for government regulation of union activities.

Recent surveys of public opinion have found a high degree of support for reform of the Act²³ along these lines. To verify the desires of New Zealanders in respect of employment relationships, and to provide backing for the adoption of a course which the Government apparently finds politically difficult, a referendum could be held on such key issues as voluntary unionism, competition between unions for members, and enterprise alternatives to the present award system - allowing for a "truly democratic" expression of views. These basic aspects of industrial democracy are the norm in most OECD countries, enjoying broad popular support and the backing of all major political parties. The relevant choices are capable of being posed in a straightforward manner. *We recommend that the Committee supports the idea of a referendum on these issues in New Zealand.*

It is sometimes suggested that, even if the development of good employment relationships is a matter for employers and employees alone, a role for the government remains in providing information to guide this process. This does not, however, appear to be justified. What is lacking is not information about how to devise good employment practices, but incentives and latitude to adopt them. Faced with strong international competition in output markets, New Zealand companies have readily adapted their management practices. Management courses and conferences have proliferated, and there has been a massive amount of learning by doing. There is no reason to believe that this learning process would not be extended more fully to the management of employment relationships in a less heavily regulated labour market.

²² The justifications for this kind of approach are discussed more fully in Epstein (1983).

²³ See: Heylen Research Centre (1987) and Insight New Zealand (1989).

POSTSCRIPT

The debate on "industrial democracy" is thick with ideology. The benefits that industrial democracy legislation is seen as delivering have a habit of conforming closely with a particular ideological agenda - a redistribution of decision-making "power" within the workplace, the broad application of favoured personnel techniques, a renewed emphasis on national economic planning, or a greater direct role for the unelected in the decisions made by the government.

The stated goals of just about all those participating in the debate - the empowering of workers, workplace justice, and improvements in productivity and general welfare - are laudable; the debate does not rest in any fundamental difference in values or objectives. Rather, it rests in differences in the way in which people believe these objectives are best pursued. In so far as it is not possible to step away from ideology, there is a need to clarify what these differences are.

In this study, there has been an underlying acceptance that economies perform best where they draw on the diverse abilities and knowledge of individual citizens, voluntarily entering economic, political and social relationships in accordance with their own best interests and the interests of those that they care for. Because knowledge is so variably and widely dispersed, because skills and preferences differ, and because each individual is seen as generally the best judge of his or her own interest, detailed central decision-making will in this view typically be a poor alternative to decentralised decision-making.

This makes for the belief that the role of government is not to *direct* activity, in particular specifying desired *outcomes*, or dragging ignorant or wilful masses towards some vision of social utopia. Instead it is to provide a constitutional and legislative environment that elucidates individual rights and provides individuals, singly and in communities, with *incentives* to exercise these rights fully and responsibly.

The only test of whether this way of looking at the world is a useful one is through rigorous assessment of real world experience, and equally rigorous development of its theoretical ramifications. The single best indication of its validity in recent times has been the widespread rejection of centralist, directive government by those countries in the Socialist world that have taken it to the greatest extreme - recognising that it has failed to deliver the economic or social benefits that it appeared to promise. In the same countries there is also a recognition that the associated political systems have turned out to be profoundly undemocratic, and indeed corrupt, and it is likely that political reform will sooner or later have to accompany economic liberalisation and decentralisation.

Perhaps even greater appeal must rest in the view of the individual on which the arguments in this study are based - as more valuable than any social system or political creed can aspire to be, as holding the potential to take control over his or her own life, and as capable of the moral responsibility that must accompany freedom.

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NEW ZEALAND BUSINESS ROUNDTABLE

STATEMENT OF PURPOSE

Membership

The New Zealand Business Roundtable (NZBR) is an organisation of Chief Executives of major business firms who meet to discuss and develop points of view on matters of common interest, and particularly public policy issues.

Members represent most of the large business interests in New Zealand and are drawn from all parts of the business sector. Their organisations comprise listed and private companies and other types of business enterprise, both domestically and overseas owned, primarily in the private sector.

Objectives

The NZBR is committed to contributing to the overall development of New Zealand and to promoting the interests of all New Zealanders concerned with achieving a more prosperous economy and fair society.

A healthy and dynamic business sector, generating an adequate flow of profits and investment, is seen as fundamental to the achievement of the economic, social and cultural aspirations of New Zealanders. In an open and free domestic and international market environment, the interests of the business sector are closely aligned with those of the community at large.

Perspectives

As a broadly based organisation, the NZBR's focus is the general economy rather than particular sectors or industries.

This requires it to take an objective, non-partisan and longer-term view, rather than to operate for the benefit of any one group at the expense of others. In particular, it does not seek to limit competition between its members, nor act to the detriment of consumers in New Zealand or overseas.

Private and Public Sector Roles

The NZBR believes the living standards and general prosperity of the New Zealand community are best served by a free enterprise system and market-oriented economy. It supports the concepts of competition, entrepreneurship and risk-taking as vital to achieving economic and social progress. These require a medium-term policy framework which is neutral and consistent between sectors and organisations and is stable and predictable.

An important role for the government is seen in providing a sound framework of laws and a macroeconomic environment which facilitate private sector decision-making, and in undertaking certain activities which are best catered for within an efficient public sector. The government also has prime responsibility for necessary action to modify market outcomes in the distribution of wealth or income, and to pursue other social equity objectives in a well-considered and cost effective way.

Internal Business Values

The NZBR endorses the concepts of corporate responsibility, integrity, self-reliance and open and fair conduct in business practices.

Its members aim to promote, at the enterprise level, a sense of cooperation and mutual respect between management and individual employees, effective use of human skills, equal opportunities and other social goals in order to maximise employee satisfaction and improve economic performance.

Priorities and Standards

The NZBR's focus is on major national issues. It seeks to engage the interest of the government and the community generally by the selection of issues it addresses and the standard adopted in its contribution to the development of national policies. The aim is to make a pro-active, professional and well-researched contribution to policy formation, rather than to adopt a traditional lobbying role. The NZBR will work with all governments in pursuit of the national interest and is concerned to be, and to be seen to be, party a-political.

As an organisation of larger businesses, the NZBR does not represent all the interests of the New Zealand commercial community. It will avoid usurping the role of sectoral and other business and community organisations and will adopt independent views reflecting broader perspectives.

Method of Operation

The NZBR is concerned to be open in its analysis and advocacy, but does not seek publicity. It believes sound policies are most likely to be developed through reasoned approaches characterised by logic, objectivity and dispassionate dialogue. It is prepared to speak out on matters of national importance where a publicly presented view is judged to be constructive and warranted. Such views would be limited to issues which have been subject to full internal analysis and discussion.