



Ignoring the Evidence: Comments on the Debate on Antipodean Neoliberal Workplace Reform and Labour Productivity

L. J. Perry*

Abstract

This paper questions why a number of leading academics and politicians have ignored recent findings by Statistics New Zealand that support a prima facie case that the individualisation of workplace contracts in that country during the 1990s was associated with – contrary to earlier findings – relatively high labour productivity growth. Attention is drawn to updated estimates of Australian and New Zealand labour productivity growth. These updated data confirm the relatively high average rate of growth of labour productivity in New Zealand during the 1990s when workplace contracts were being individualised. Caution is, nonetheless, recommended when making claims about the determinants of labour productivity growth as, apart from significant measurement difficulties, workplace arrangements are not the only determinant of labour productivity.

1. Introduction

The introduction of the Workplace Relations Amendment (WorkChoices) Act 2005 (abbreviated to WorkChoices) in late 2005 has generated much commentary (e.g. 151 Academics 2005, Wooden 2006). In essence, WorkChoices, which came into operation in March 2006, radically rearranged labour market regulations so as to reduce, among other things, the role and power of trade unions and the Australian Industrial Relations Commission. Trade unions – already somewhat enfeebled by a couple of decades of declining membership – had their legal rights to gather members and to organise strikes severely curtailed. The Australian Industrial Relations Commission (AIRC), which had also had its authority diminished

* University of Technology, Sydney. *This paper has benefited from referee and editorial comments of which I am most appreciative. Errors are my sole responsibility.*

over the years by various earlier legislative changes, saw its role, as a disputes adjudicator, further reduced. Unfair dismissal legislation, originally introduced in 1994, was dismantled for firms hiring 100 or fewer employees, and for larger firms, new limits were placed on the scope of the former legislation. Also, a new Fair Pay Commission was established to determine minimum wage rates, taking over a role formerly assigned to the AIRC.

The central purpose of WorkChoices has been to individualise workplace relations between employees and employers and reduce the role and influence of third parties in the process of determining wages and conditions, which means reducing the role of unions and the quasi-judicial AIRC. The move to individualising contractual arrangements between employers and employees in Australia is similar in its purpose, though not in its execution (Moore 2005), to that adopted earlier in New Zealand when the Employment Contracts Act 1991 (abbreviated to ECA) was introduced. The ECA, which was in place from May 1991 to October 2000, reduced the power and privileges of trade unions. For many years, unions in New Zealand had played a central role in the determination of wages and conditions. The ECA effectively brought an end to that era. Unions lost their special status as representatives of labour. The New Zealand system of conciliation and arbitration, which had been very similar to the Australian system (indeed, was a predecessor of the Australian system), all but ceased to exist with the introduction of the ECA. The determination of wages and conditions came, over time, to be predominantly determined on an individual basis (Deeks and Rasmussen 2002, Rasmussen 2004, Rasmussen and Lamm 2005, Walsh et al. 2004). Union membership fell, with union density (the percentage of employees who are union members) approximately halving to a density rate of around 22 per cent by 2000. That rate has largely remained in place since the ECA was amended in 2000 (Victoria University of Wellington 2006, Blackwood et al. 2006).

While much has been written about the impact of the ECA on New Zealand, an often-repeated claim is that labour productivity did not significantly improve in New Zealand during the years of the ECA. From this it is inferred, not unreasonably on the face of things, that there is no obvious basis for assuming that Australia will fair any better than New Zealand in its attempts to improve labour productivity by individualising workplace relations. Thus recent commentaries by Brendan O'Connor (2007) and Quiggin (2007), among others, are dismissive of any significant link between individualised workplace contracts and labour productivity. Similarly Peetz (2007), in a more detailed analysis of productivity, comes to much the same ultimate conclusion.

This paper will question the continued strong support for the case that New Zealand's labour market productivity growth was weak during the years when the ECA was in place. By implication, it will be suggested that – notwithstanding the many complexities and paradoxes associated with measuring and explaining labour productivity – a prima facie case can be mounted that, at a macroeconomic level, the individualization of workplace contracts has not been harmfully associated with aggregate labour productivity growth in New Zealand. Accordingly, the next section of this paper will review the macroeconomic evidence and arguments mounted in support of the view that individualizing workplace contracts has been associated with relatively weak labour productivity growth, particularly in New Zealand, and lackluster per capita GDP growth. The subsequent section will argue that caution is required in the use of productivity estimates – official or otherwise – because of the numerous limitations associated with the various sources. The final section will offer some concluding thoughts.

2. Considering the Evidence

Workplace regulation appears to be an important policy lever. Governments are continually either tinkering with or overhauling workplace regulations or, just as often, re-organising the administration of pre-existing workplace regulations. The shape and tone of workplace legislation is, therefore, a major political and economic issue. But policy makers need to be well informed when drafting and re-drafting policy.

In this regard it is of interest to note recent comments by Brendan O'Connor (2007), who is the Shadow Parliamentary Secretary for Industrial Relations and Chair of the Federal Labor Parliamentary Industrial Relations Taskforce. O'Connor is highly critical of both the Australian Government's WorkChoices legislation and New Zealand's ECA legislation. For example, with respect to labour productivity he writes (among other things):

In July 2005, in a speech to the Sydney Institute, the Prime Minister used the New Zealand experience as a rationale for his position. But when closely examined, there is no evidence to support the claim.

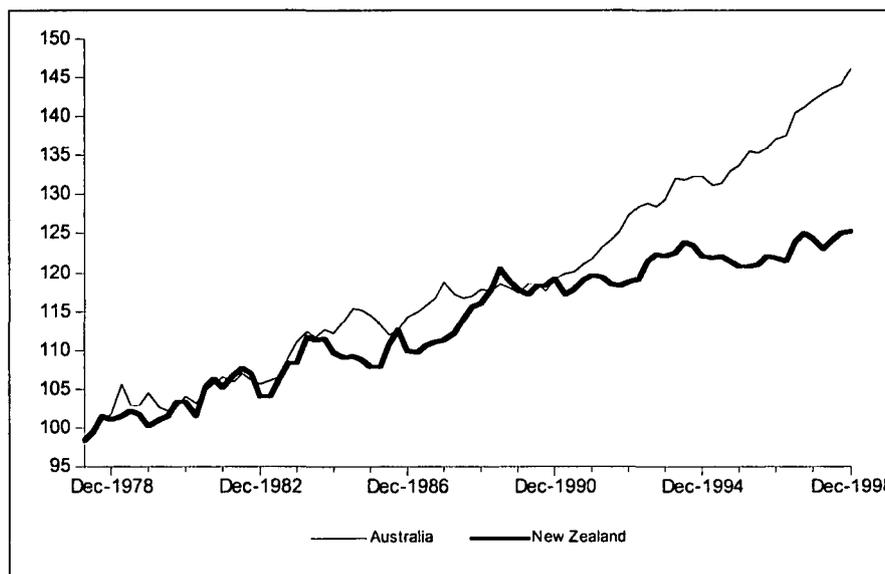
Paul Dalziel in the *Review of Political Economy* in 2002 established that productivity and wages actually fell after the New Zealand Government began forcing people onto individual contracts with the enactment of the *Employments Contracts Act 1991*. This study exposed the myth.

The New Zealand economy lost almost two per cent of GDP between 1987 and 1998. More telling perhaps, and by way of comparison, from 1990 to 1998 Australian productivity rose by 21.9 per cent compared with a mere 5.2 per cent in New Zealand.

In the above quote, O'Connor refers to a study by Dalziel (2002), who found labour productivity growth to be weak in New Zealand compared to Australia during the period of the ECA between 1991 and 1998. These data are reproduced in Figure 1. And they confirm his claim.¹

Figure 1: Labour Productivity Estimates for Australia and New Zealand

Dalziel's (2002) Total Economy Estimates



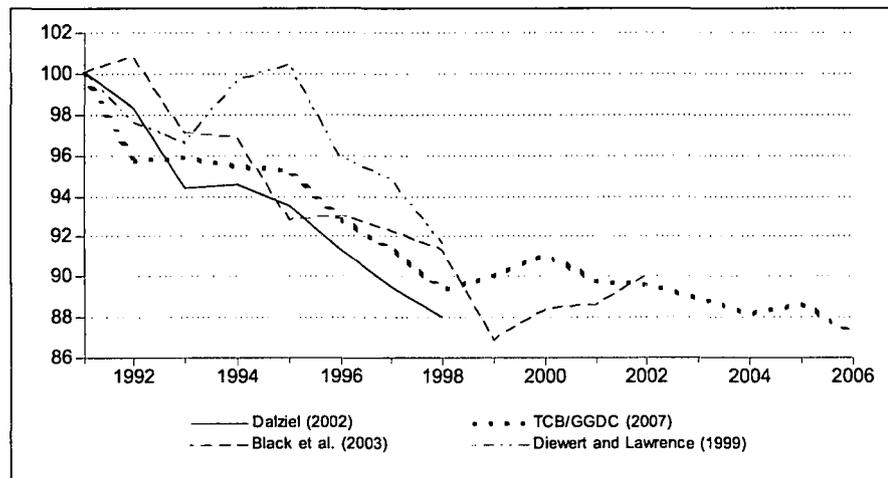
Source: As indicated above.

At this point it should be noted that when Dalziel prepared his estimates of labour productivity, there were no official estimates of labour productivity in New Zealand. Australian official estimates of labour productivity from the Australian Bureau of Statistics (ABS), on the other hand, were available. The ABS estimates were and remain based on the 'market' sector, which makes up about two thirds of the total economy. Dalziel's estimates of labour productivity were related to the total economy for both countries. A number of other studies of New Zealand

labour productivity suggested relatively weak labour productivity. Figure 2 depicts estimates of the ratio of New Zealand to Australian labour productivity by Diewert and Lawrence (1999), Dalziel (2002), Black et al. (2003) and TCB/GGDC (2007) ² for all or most of the years of the ECA (1991-2000) and beyond. The general shape of the lines in Figure 2 tell a similar story to that advanced by Dalziel, though the extent of the relative decline according to Dalziel's estimates is a little more acute than is the case for the other selected estimates.

Figure 2: Relative Labour Productivity Estimates by Selected Studies

Indexes of the Ratio of New Zealand to Australian Values



Source: Dalziel (2002).

Like O'Connor, Peetz (2007) draws on the work of Dalziel to support his negative overall assessment of the individualisation of workplace contracts in Australia and New Zealand. Thus in response to a positive assessment of WorkChoices by Pearson (2007), Peetz writes:

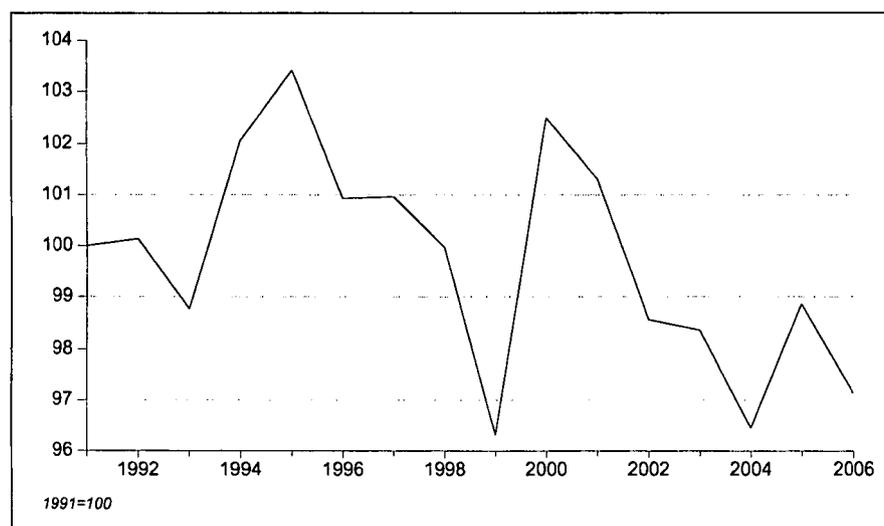
Some have suggested that this poor productivity performance is simply the arithmetical result of the entry of semi-skilled and unskilled workers into the workforce as a result of WorkChoices (Pearson 2007). However, at less than 18 per cent, the share of 'unskilled' workers (labourers and elementary clerical sales and service workers) in the workforce has been, during the past three quarters, the lowest average on record (Australian Bureau of Statistics, 6291.0).

We would not expect these declines to continue indefinitely – a rise in productivity must occur sometime soon. But from these data, and from extensive evidence elsewhere (Dalziel 2002; Peetz 2005), there is no reason to believe that WorkChoices will be able to generate a significantly higher productivity growth rate than occurred under the traditional award system, or would have occurred anyway.

Pearson's (2007) positive assessment of WorkChoices and the individualisation of workplace contracts rests, in the main, on two planks. The first plank is that the rapid employment of relatively low-skilled workers during much of the first year of the operation of the WorkChoices Act has led to weakening of labour productivity growth. Peetz (2007) dismisses this argument, as noted above, on the grounds that: '...the share of 'unskilled' workers...in the workforce has been, during the past three quarters, the lowest average on record (Australian Bureau of Statistics, 6291.0).³

Figure 3: Labour Productivity New Zealand Relative to Australia

Official Estimates for Both Countries



Sources: Australian Bureau of Statistics via Productivity Commission (2007) and Statistics New Zealand (2007).

The second plank of Pearson's positive assessment of the impact of individualising workplace contracts is to draw attention to Statistics New Zealand's (SNZ's) first-ever official estimates of productivity, i.e. labour, capital and multifactor productivity (see SNZ 2007a). These estimates were released in 2006, and some of their implications are discussed in Perry (2006, 2007). Revised and updated estimates were subsequently released in 2007. Figure 3 depicts the 2007 revised estimates of New Zealand labour productivity as a ratio of the latest Australian labour productivity estimates (ABS 2006, Productivity Commission 2007). Note the difference between the early estimates of the labour productivity ratio presented in Figure 2 and the more recent estimates for the measured sector in Figure 3.

What is the significance of these recently-released official data?

First, these data represent the most thorough estimates of productivity to date. The resources of SNZ are considerable and SNZ staff have access to unpublished data that are inaccessible or difficult to access for 'outsiders'. Second, the methodology involved in the construction of these data is very similar to the methodology employed in the construction of the official Australian data developed by the Australian Bureau of Statistics. Thus meaningful comparisons can be made. Third, the official New Zealand and Australian data are for that part of the economy referred to as the 'market' sector in Australia and the 'measured' sector in New Zealand. New Zealand's measured sector excludes government administration and defence, health, education, property and business services, and personal and other community services as it is difficult to estimate productivity levels for these sectors; whereas those sectors that make up the 'measured sector' – about two thirds of the total economy – more readily lend themselves to productivity estimates.

A final point to note regarding the estimates of labour productivity by SNZ is that labour productivity growth is considerably higher than in all earlier estimates. From a policy point of view this is probably the most interesting feature of the new official estimates. This is because, whereas the earlier unofficial estimates of New Zealand labour productivity calculate a *low* rate of growth compared to Australia during the years of the ECA (Figure 2), the latest official estimates calculate a *slightly higher* average rate of growth compared to Australia (Figure 3). In other words, these new official estimates largely nullify the impression left from estimates embodied in Figure 2. Thus between 1991 and 2000 the new official estimates of labour productivity growth in New Zealand indicate an increase of 29 per cent which is much higher than the 5.2 per cent measure cited by O'Connor (2007). Over the full timeframe of the ECA years, Australia recorded an increase of 26

per cent. During the post-ECA period from 2000 to 2006, New Zealand's labour productivity increased by 7 per cent, Australia's by 13 per cent.

Peetz's dismissal of Pearson's 'two planks' *explicitly* rejects the first plank and *implicitly* rejects the second plank. The second plank, that new official estimates of labour productivity are markedly higher than earlier unofficial estimates, is apparently considered by Peetz to be of insufficient consequence to warrant any reconsideration of (1) Dalziel's (2002) outdated data and the implications that spring from it or (2) Peetz's own earlier analyses (Peetz 2005, 2006) that draw, in part, from Dalziel.

Quiggin (2007) shares a similar perspective on New Zealand's perceived poor labour productivity record to that of O'Connor and Peetz. He writes that:

No country undertook more radical institutional restructuring in the 1980s and 1990s and, for quite a few years, flights into Wellington were packed with international delegations seeking to learn from the Kiwi miracle.

Sadly, the miracle never arrived.

There have been some recent attempts to defend New Zealand's record in this period. While statistics can be selected to prove almost anything, the facts are inescapable. Throughout the 1980s and 1990s, the rate of growth of gross domestic product in New Zealand was well below that for both Australia and the OECD.

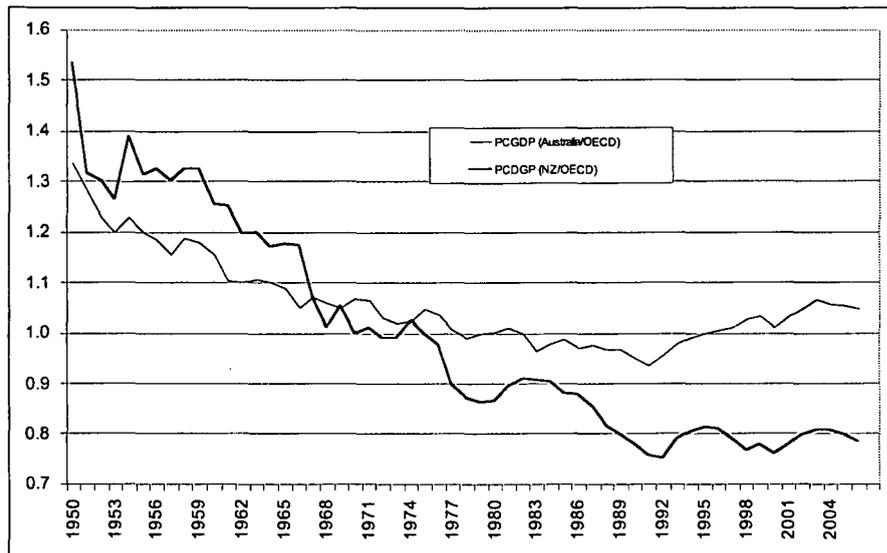
Performance has improved since the late 1990s. Probably coincidentally, this followed the election of Helen Clark's Labour government, which raised marginal tax rates, and repealed the Employment Contracts Act. If there is a relationship between institutions and productivity, the New Zealand example suggests it is not a simple case of free markets good, intervention bad.

Quiggin's comments about New Zealand's relatively weak GDP growth are worth amplifying, as it is true that the relative position of New Zealand has decreased over much of the last fifty years or so. Figure 4 illustrates this. It charts *per capita* real GDP (rather than straight real GDP) for Australia and New Zealand as a ratio of OECD⁴ per capita GDP from 1950 to 2006, using TCB/GGDC (2007) data.⁵ It is notable that New Zealand's position relative to the OECD average declined quite strongly over the period 1950 to the early 1990s (around 1992). Since the early 1990s, New Zealand's position has stabilized relative to the OECD average. Australia's position also declined relative to the OECD between 1950

and the early 1990s (around 1991) as Figure 4 indicates. The relative decline in Australia, however, was considerably shallower than the decline in New Zealand. Moreover, since the early 1990s, Australia's position relative to that of the OECD has generally improved. Thus since 1996 Australia's per capita GDP has been greater than the OECD average, a situation not achieved on a sustained basis since the late 1970s.

Figure 4: Per Capita GDP for New Zealand and Australia Relative to OECD

TCB/GGDC Estimated EKS 2006 \$US GDP



Source: The Conference Board and Groningen Growth and Development Centre (TCB/GGDC, 2007).

The data in Figure 4 paint a different picture, in some ways, to the one painted by Quiggin, O'Connor and Peetz. For example, per capita GDP in New Zealand, relative to the OECD average, ceased falling during the years of the ECA and after, with New Zealand's per capita GDP averaging a little below 80 per cent that of the OECD. The years of the ECA and later can thus be viewed as being associated with a stabilization in the relative position of New Zealand, at least in terms of per capita GDP

3. Measurement and Interpretive Cautions

Official New Zealand productivity estimates are based on a range of basic survey source material. Labour productivity is calculated by dividing an index of real value-added output by an index of total hours worked (or a proxy thereof). There are numerous measurement issues associated with the practicalities of estimating labour productivity, as well as capital and multifactor productivity. Here we will focus on some of the measurement issues associated with the estimation of the total hours worked, which SNZ refers to as the 'labour input' series, as a way of indicating that caution needs to be exercised in the use of these estimates as they are generated from a number of different data sets, all of which have limitations.

SNZ draws from four basic sources to generate its labour input series. These are identified below (SNZ 2007b):

- Quarterly Employment Survey (QES). This is a sample survey of businesses with paid employees. It provides estimates of *hours paid for*, as opposed to *hours actually worked*. The hours-paid-for data stretch back in one form or another to 1946 and they align relatively well with major industry classifications
- Business Demography Database (BDD). This is a snapshot for February of the employment and production profile of New Zealand enterprises.
- Household Labour Force Survey (HLFS). This is a quarterly sample survey that gives estimates of, among other things, employed persons and hours of work. These data are available from March 1986.
- Census of Population and Dwellings (Census). This is a 5-yearly census of New Zealand dwellings. It gives estimates of the number of employed persons plus estimates of hours worked. The data in the labour volume index correspond to census estimates, according to SNZ (2007b).

Table 1 indicates the various sources used to generate the measured sector's labour input series. While all of these data sources are used to some extent to generate the labour input series, the principal source of data on hours worked is the QES, rather than the HLFS. The advantages of the QES are, as indicated above, that it stretches back much further into the past and better aligns, when subdivided, with various industry categories (Ede *et al.*, 2006). This is important because SNZ plans to backdate its productivity estimates, in the first instance

to 1978, and to develop industry-level productivity estimates along similar lines to ABS industry estimates.

Table 1: Source Series Used to Construct Labour Input (Total Hours)

Industry	Data source for employee count	Data source for employee hours	Data source for working proprietor count	Data source for working proprietor hours
QES industries	BDD/QES jobs	QES paid hours	Census/HLFS count	Census/HLFS usual hours
Agriculture	Census/HLFS count	Census/HLFS usual hours	Census/HLFS count	Census/HLFS usual hours
Services to agriculture	Census/HLFS count	Census/HLFS usual hours	Census/HLFS count	Census/HLFS usual hours
Commercial fishing	Census/HLFS count	Census/HLFS usual hours	Census/HLFS count	Census/HLFS usual hours

Source: Adapted from SNZ (2007) p. 13.

According to SNZ:

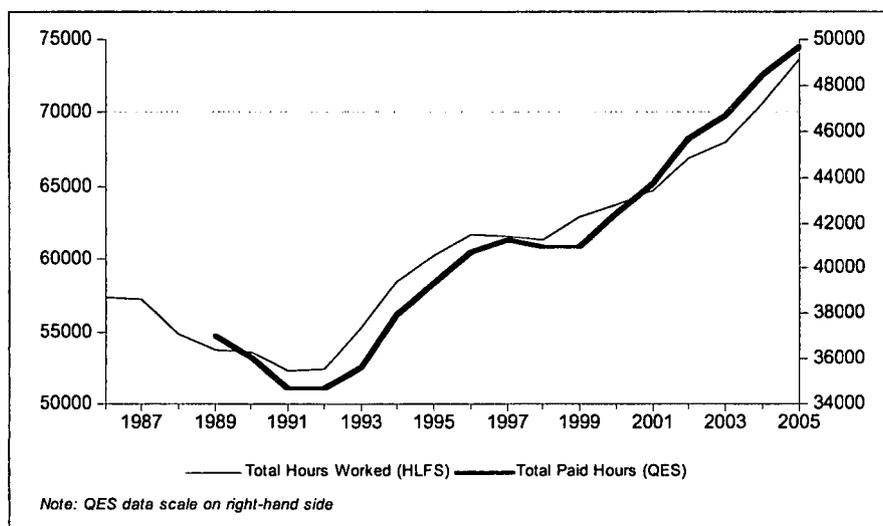
Using establishment surveys ensures consistency with other component series of productivity. The QES and BDD largely survey the same enterprises that are covered by the data sources feeding into the output and capital series.

The annual change in hours paid at the aggregate level is not significantly different from the annual change in actual hours worked. For productivity purposes, the main interest is in the annual growth of volume series. It is assumed that the annual growth of hours paid is a good proxy for the growth of actual hours worked. (SNZ, 2007b, pp.10-11, italics added).

The foregoing comments suggest that little is lost from using the QES data as opposed to the HLFS data. Indeed, during the ECA years between 1991 and 2000, both HLFS and QES estimates of (respectively) 'total hours worked' and 'total hours paid for', depicted in Figure 5, increased by 22 per cent (using March data as does SNZ when estimating its labour productivity series).⁶

Figure 5: Hours Actually Worked (HLFS) Data versus Hours Paid (QES) Data

New Zealand Total Hours of Work – March Trend Values



Sources: Statistics New Zealand, Household Labour Force Survey (HLFS) Table 61.900-09 Total Hours Worked and Quarterly Employment Survey (QES) Table 63.901-03 Total Paid Hours via EconData.

SNZ also notes the following with respect to the QES and casual employment:

The collected data relates to paid employees of all ages *but casual labour is not well covered*. This is particularly relevant during periods where environmental factors affect the composition of the labour force. For example, one such change occurred in 1991 when the Employment Contracts Act (ECA) came into force. One objective of the ECA was to increase flexibility in the labour market; it is quite likely that along with this increased flexibility came an increase in the number of casual workers. (SNZ, 2007b, p.14, italics added)

How might this qualification be interpreted? If, for example, on the one hand, the underlying growth rate of full-time employment has been overstated and the underlying growth rate of casual employment has been understated, then this may mean that the actual overall growth rate of total hours worked has to be adjusted down and labour productivity growth adjusted up. On the other hand, if it is assumed that the underlying growth rate of casual workers is greater than that of full-time workers, and the underlying growth rates do not need to be adjusted,

but the 'initial' number of casual workers needs to be adjusted up, then this scenario may mean that the actual overall growth rate of total hours worked has to be adjusted up and labour productivity growth adjusted down. In either case, it seems likely that the adjustments would be relatively minor.

The overall implication of these limitations, it is suggested, is that there is a need for caution in the claims made for labour and other measures of productivity. While SNZ has produced the most meticulously sourced and computed estimates of productivity to date, we should not be surprised if later revisions change the shape of the series thus far developed.

There is another reason to be guarded in the claims made for these data. Although the SNZ data suggest a significantly higher rate of growth in labour productivity than had previously been estimated, and although the SNZ estimates of labour productivity growth data suggest that the years of the ECA were years of high labour productivity growth – at least for the measured sector – it may be presumptuous to attribute all or most of this to labour-market legislative arrangements. To be sure, the association over time is highly suggestive. Nevertheless, many other factors contribute to labour productivity, and this paper has not attempted to determine the relative importance of these.

4. Conclusions

The central purpose of this paper has been to review the arguments and evidence advanced recently that dismiss, in one way or another, any positive contribution that individualising workplace contracts may have had on labour market productivity and/or per capita GDP. This paper has argued that recent estimates of labour productivity from SNZ indicate that, during the years of the ECA, labour productivity growth was relatively high. It was comparable to, in fact a little higher than, labour productivity growth experienced in Australia, and certainly much higher than earlier estimates suggested. It is important to emphasise that this is *not* a criticism of those earlier productivity estimates. Those estimates drew on information available at the time. These new official estimates are best viewed as providing an enriching new source of information from which to further develop our understanding of the dimensions and complexities of productivity growth. Nor should we be surprised if there are further refinements and developments that might re-shape the data themselves as well as our interpretation of them.

That said, it is important actually to recognise these new data from SNZ and to incorporate them into our various attempts to understand and sensibly interpret

their political and economic implications. Ignoring the evidence is ultimately counterproductive.

Endnotes

¹ The claim that 'the New Zealand economy lost almost two per cent of GDP between 1987 and 1998' is not confirmed. TCB/GGDC (2007) estimate a real GDP increase of 33 per cent. It is true that the compounded annual growth rate of real GDP for New Zealand was 1.6 per cent less than for Australia – which is perhaps more aligned to the point O'Connor is seeking to make.

² TCB/GGDC refers to The Conference Board and Groningen Growth and Development Centre. This body, located at the University of Groningen in the Netherlands (<http://www.ggdc.net/>), specialises in the analysis of productivity. It encourages research into all matters related to productivity and provides internet access to historical data on productivity for most of the countries of the world

³ In this paper we shall not review the short-term gyrations of labour productivity and other indicators as these data are frequently subject to major revisions and offer too short a period for drawing reliable conclusions.

⁴ The OECD (Organization for Economic Cooperation and Development) countries included are the member countries as at 1973. United Germany is included from 1991, West Germany prior to this.

⁵ A number of interpolations have had to be made for the earlier years. Nevertheless, the basic direction of change is unlikely to be affected. GDP per capita data are expressed in 2006 US\$ (converted to 2006 price levels with updated 2002 EKS PPPs).

⁶ See references appended to Figure 5.

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