

## ADAPTING TO THE RECESSION: LABOUR FORCE CHANGES AND LABOUR COST REDUCTIONS

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Since the election of the Fourth Labour Government in 1984 the New Zealand economy has been subjected to massive deregulation. Over the same period, and especially following the 1987 sharemarket crash, the country has been in severe recession. These two factors have meant that firms have had to become a great deal more competitive to survive, a process that has obvious implications for their workforces as firms attempt to reduce costs and improve efficiency. The period has also been marked by claims that New Zealand's economic problems have much to do with an allegedly inflexible labour market. There have been strong calls from both Labour and National Governments for greater labour market flexibility.

However, the evidence seems to indicate that there was considerable flexibility in the labour market prior to 1991. The New Zealand Planning Council (1986), using wage flexibility measurements developed by the OECD, concluded that their study provided "no clear evidence for arguing that the New Zealand labour market is particularly rigid by comparison with those of other developed economies" (p24). This conclusion is supported by empirical studies of other forms of flexibility. Harbridge (1990) in a study of wage settlements in the period from 1984 on concludes "the data presented in this paper indicate that, compared with measures of inflation, and within and between wage rounds, a very important degree of wage flexibility exists as an output of collective wage bargaining in New Zealand." (p248) A survey of a group of employers in southern New Zealand by McAndrew and Hursthouse (1991) indicated that those employers had considerable latitude in the way in which they were able to structure employment within their enterprises. Major studies of non-wage flexibility include Ryan's (1992) survey of employers in northern New Zealand and Anderson, Brosnan and Walsh's (1992(a); 1992(b)) national survey. Both surveys conclude that there was a greater degree of numerical flexibility than often claimed. This paper presents further results from the latter survey.

This paper will examine two aspects of labour market flexibility, namely the ability of workplaces to adjust their workforce and to reduce their relative labour costs. The survey covers the period ending in May 1991 during which firms faced considerable economic uncertainty and financial pressure. As with the above studies it confirms that considerable flexibility existed in the New Zealand labour market prior to the Employment Contracts Act.

### Survey Methodology

The results presented in this paper are based on a national survey of 2000 workplaces drawn from the Business and Agricultural Directories by the Department of Statistics. These had been selected randomly from each 2 digit industrial classification, and the number drawn from each 2 digit group was weighted proportionately for the number of workplaces in the classification.

A pre-pilot survey of employers personally known to the researchers was used to test and fine tune the questionnaires. A full pilot was then conducted using a sample of 100 workplaces drawn in a similar manner to the main sample. After further revisions, the 2000 questionnaires were sent out during the middle weeks of May 1991. The survey coincided with the coming into effect of the Employment Contracts Act 1991. The survey results therefore provide an accurate picture of certain aspects of labour market flexibility at the end of the period of the Labour Relations Act 1987. Future surveys will allow an assessment of the impact of the Employment Contracts Act on these dimensions of labour market flexibility.

Of the 2000 questionnaires posted, 56 were returned as address unknown. Another 26 workplaces returned the explanatory letter with a tick in the box which indicated that they did not employ any staff. Of the remaining 650 replies received, 12 returned the questionnaire blank or sent a letter declining to take part in the survey. Thus the total number of usable questionnaires received was 638, a response rate of 33 percent. Respondents were not required to identify their workplace, but were given the opportunity to do so if they wished to take part in follow-up interviews or wanted to be sent a summary of the survey results.

As far as the confidentiality requirement allowed us to determine, the profile of workplaces responding to the questionnaire appeared to be reasonably typical of the original sample, except that the response rate was much higher for larger workplaces. The respondents to the survey had approximately four times the number of employees than would have been expected from a random sample. Our explanatory letter had stressed that we wanted to include workplaces which employed only one or two people. Nonetheless, some of the managers who

declined to take part wrote in to say that they only employed one or two staff and that we "would not be interested in them". Given that this attitude might have been more widespread, and the fact that larger workplaces have more resources for responding to questionnaires, the pattern of responses by workplace size is not surprising.

To ensure that the results reported were not biased towards large workplaces, we weighted the responses according to workplace size. The weights were computed from the statistics from our sample and the corresponding statistics from the Business and Agricultural Directory. The weights used were as follows:

Workforce size	Weight
1-5	8.3
6-9	2.4
10-49	1.7
50 plus	1.0

It is these weighted results, which are more representative of the population of workplaces, that we use in the tables which follow.

Respondents were invited to indicate which of 25 industry sectors they belonged to. Once these were coded, they were aggregated to produce 8 broad industry sectors which both corresponded to the NZSIC and had a reasonable proportion of respondents in each of the groups created. The result involved some minor departure from the NZSIC. Agriculture, forestry and fishing were combined with mining to form a group we called "primary" industry. Electricity, gas and water were combined with central government administration, local government administration and private non-profit organisations to form a group we called "public/non-profit services". Community and personal services formed a separate group from the latter.

### The questions

This paper looks at the results derived from two of the questions in the survey, both concerning the way employers reacted to the economic environment in the period preceding the survey. The first attempted to find the types of changes employers had made to the structure of their labour force between 1985 and 1991. Respondents were asked to indicate whether they had decreased or increased different categories of workers in their workforce since 1985. The question did not attempt to quantify the number of workers involved in these changes but rather to gauge the extent to which the surveyed workplaces were adjusting their workforces, and in particular moving toward a more casualised and/or externalised workforce as a response to the 1980s recession. The figures are therefore the percentage of respondents who reported either increasing or decreasing their use of a particular type of labour.

A second aspect of adjustment measured by the survey was the extent to which respondents had been able to

**Table 1. Changes to the labour force 1985 to 1991**

*Weighted percentage of workplaces*

	Full time		Part time	
	Incr.	Decr.	Incr.	Decr.
Permanent	23	35	18	8
Fixed term	13	4	7	4
Apprentices	8	33	0	1
Temporary w'krs	13	13	14	10
Casual workers	14	14	20	11
Contractors	29	9	11	3
Homeworkers	6	5	4	76
Temporary agencies	8	10	6	5

reduce their relative labour costs. Respondents were asked whether they had been able to reduce labour costs relative to their other costs during the previous three years (i.e. between 1988 and 1991). If so, they were asked to describe the means by which such reductions were achieved. The second part of this question was an open question and the reported results are derived by the categorisation of those responses.

#### *Changes in the labour force over the previous five years*

The survey asked employers to indicate changes in their labour force over the previous 5 years (from 1985). The aggregated figures on changes since 1985 are set out in Table 1. The table reveals a picture of shifting employment patterns in all categories, with a moderate trend towards an increase in the use of some, but not all, non-standard forms of employment. Non-standard employment is generally taken to encompass forms of employment other than long-term, predominately fulltime employment. The use of full-time and part-time contractors grew markedly. There was also a substantial increase in workplaces using part-time permanent and casual workers and there was also a growth in workplaces using permanent fixed term workers. The use of overtime decreased significantly.

#### *Reduction of labour costs*

Respondents were asked if they had been able to reduce labour costs relative to other costs, not whether they had been able to reduce absolute labour costs. The questionnaire did not attempt to define labour costs. The majority (67%) of respondents reported that they had been unable to achieve such cuts, although a sizeable minority (33%) responded that they had been able to do so. This finding is not surprising in view of the argument that labour costs are a small percentage of total costs for many firms (Skinner, 1986; Rubery et al. 1987), and that there is therefore limited scope for them to be reduced relative to other costs. Moreover, it can be argued that labour cost reduction has little impact on overall productivity and competitiveness, especially when set against other factors such as production

**Table 2. Ability to cut labour costs and methods used**  
*Percentage of respondents able to reduce costs*

	Pr.	Mn.	Cn.	WT	Tr	Fn.	CS	Pnp	Total
Able to reduce costs (1)	20	40	32	34	30	42	27	30	33
Retrenchment	38	52	20	55	36	31	42	37	43
Reorganisation	23	7	12	1	0	6	9	6	7
Reduce wages or remuneration	0	2	0	4	0	4	0	9	2
New technology	0	3	11	0	5	20	0	0	4
Intensification and motivation	0	5	5	6	0	0	0	8	4
Reduce overtime	2	1	3	4	0	5	3	0	3
Piece rates or performance contracts	0	2	9	0	8	2	8	0	4
Part time and casual	0	5	0	11	20	0	7	31	7
Increase subcontractors	0	1	19	0	6	0	0	0	3
Increase inexpensive workers	0	1	0	0	0	12	1	3	2

(1) *Percentage of total respondents*

Pr=Primary, Mn=Manufacturing, Cn=Construction, WT=Wholesale/retail, Tr=Transport, Fn=Finance, CS=Community services, Pnp=Public non-profit.

methods, technology and marketing strategies. Rubery et al. (1987, p.132) calculated that on average, a 3% relative price advantage was the best that could be gained from a 20% reduction in labour costs, and that the maximum comparative advantage which could be obtained by cutting wage costs by that amount would be 15%. It must be recognised, however, that the proportion of labour costs can vary greatly between industries and that a 3% saving may well be important.

The survey asked employers to list the methods by which they were able to reduce relative labour costs. The results are set out in Table 2. The most frequently reported methods involved either a reduction of the labour force or moves to casualise and externalise work. These results are far from surprising given the economic climate over the period surveyed. Overall, 59% of the responses involved numerical flexibility. Other forms of flexibility were reported but at a much lower rate, 11% involving functional flexibility and only 5% identifiable as wage flexibility. Therefore, wage cuts were used infrequently to reduce labour costs, largely a reflection of an inability to do so because of the national award system that was still in effect at the time of the survey. It is also likely that in most cases large reductions in labour costs cannot be achieved purely by cutting wages. Instead employers cuts seem to have been achieved by the retrenchment of their workforce. This was by far the most popular method (43%), followed by more flexible forms of using labour. Thus, 7% reported a greater use of casual and part time labour and another 3% reported increased subcontracting. Reorganisation of work, either on its own or in combination with retrenchment was, however, reported by 7% of these respondents.

### Adapting to the recession

In this paper, we focus on employers adaptation of their labour in the recession within industry sectors. The survey does however allow the presentation of results by other variables. The following briefly summarises some of these findings.

As might have been expected, larger workplaces had a greater ability to achieve reductions in relative labour costs. Of workplaces with 50 or more employees, 64% were able to make reductions. This figure is much lower at 42% for workplaces in the 10 - 40 range and even lower at 33% for workplaces with 6 - 9 employees. Workplaces with 5 or less employees were least able to reduce their costs at 29%. Workplace size, however, appeared to have less impact on the way in which employers were able to change the structure of their labour force.

A substantial variation in the ability to reduce labour costs was associated with the degree of New Zealand ownership of the companies surveyed. Only 32% of workplaces with more than 50% New Zealand ownership were able to reduce their costs, but 56% of overseas owned workplaces were able to do so. This finding may be explained by overseas companies having larger workforces. There was also some evidence that overseas owned firms were more willing or able to change the structure of their labour force.

There was no substantial variation between private and public sector workplaces (34% and 30% respectively) in reducing relative labour costs. Private sector workplaces

**Table 3. Changes to the Primary sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	17	22	0	0	24	22
Fixed term	7	0	0	7	7	14
Apprentices	10	16	0	0	10	16
Temporary workers	12	0	0	10	12	20
Casual workers	40	10	3	12	43	27
Contractors	39	4	3	0	42	8
Homeworkers	8	0	0	0	8	0
Temporary agencies	7	12	0	12	7	23

(1) This includes responses that could not be divided between full time and part time.

were more likely to have made substantial changes in their use of different forms of labour.

As Table 2 shows, the ability to achieve relative cuts in labour costs varied among industry sectors. It was most marked in the Finance sector where 42% of workplaces were able to achieve cuts. Manufacturing workplaces were also very successful at 40%. The industry least able to achieve cuts was Primary at only 20%. In other sectors, between 27% to 34% of workplaces achieved cuts.

The results indicated that there was considerable variation among industries in the methods used to reduce relative labour costs. Retrenchment (reduction of the labour force) was dominant in all sectors. 43% of the workplaces that were able to cut labour costs achieved this by retrenchment. There was, however, considerable variation in its use among industries, being highest in the Wholesale-Retail sector (55% of those respondents able to cut labour costs) and Manufacturing (52%) and lowest in Finance (25%) and Construction (20%). Construction was the only sector where any single other method was used with similar frequency. There was also considerable variation among industry sectors, both in the range of other methods used to achieve reductions and in their frequency of use. We now turn to examine the various industry sectors.

#### *Primary:*

This sector was the most limited both in its ability to achieve labour cost reductions and in the range of methods used. Only 20% of respondents in the Primary sector reported an ability to reduce costs and this was almost exclusively achieved by retrenchment (38% of these respondents) and reorganisation (23%). The only other method reported was reduced overtime by 2% of respondents.

The survey showed that in the period from 1985, the most noticeable change to the Primary sector labour force was an increase in the use of casual and external labour.

The proportion of workplaces increasing their use of casual workers 43% (with 27% reporting a decrease) and of contractors 42% (with 8% reporting a decrease). There were smaller reported increases in some other areas of casual employment (eg 8% of workplaces increased their use of homeworking). By the time of the survey the Primary sector consisted of 69% full-time permanent workers with the next largest category being contractors at 18%.

#### *Manufacturing*

The Manufacturing workforce has the highest level of full time permanent workers of any sector (87%) followed by 5% part time permanent workers. The period from 1985 was marked by considerable movements in most categories of the workforce. A large number of workplaces reported decreasing their full time permanent labour force (57% with 25% reporting an increase) and apprentices (28% with only 4% reporting an increase). The use of full time contractors increased (13% with 6% reporting a decrease) but this picture was reversed in the case of part time contractors (no reports of an increase and a 10% decrease). There was an increase in the use of fixed term workers (12%) and temporary workers (28% with 16% reporting a decrease) but a decrease in the use of casual workers (26% with 14% reporting an increase) and homeworking (17% with 8% reporting an increase)

Of the 40% of manufacturing workplaces able to cut relative labour costs, most relied predominantly on retrenchment (52%). There was also a widespread range of other methods used but their use was limited. The two most important were reorganisation (7%) and work intensification and the use of part time and casual workers (each 5%).

#### *Construction*

The workforce in the Building and Construction sector is predominantly full time permanent (75%) with contractors

**Table 4. Changes to the Manufacturing sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	15	42	3	1	25	57
Fixed term	8	2	12	0	19	2
Apprentices	4	28	0	0	4	28
Temporary workers	13	11	12	1	28	16
Casual workers	6	4	7	18	14	26
Contractors	13	6	0	10	15	16
Homeworkers	3	4	2	11	8	17
Temporary agencies	4	4	2	2	8	6

(1) This includes responses that could not be divided between full time and part time.

being the next largest component at 11%. The sector reported major changes to its labour force in the post-1985 period. There were reductions especially in the number of firms using permanent workers (56% decreased and 19% increased), fixed term workers (22%), apprentices (57%) and temporary workers (44% with only 4% increasing). In some areas there was considerable movement but with some balance between increased and decreased use, mainly with casual workers (40% reporting an increase and 36% a decrease) and contractors (37% reporting an increase and 26% a decrease). There were relatively few changes to the part time workforce, mainly an increase in the use of part time-casual (20% with 3% reporting a decrease) and contractors (10%). In the full time work force there were major reported changes, with large numbers of workplaces reducing their use of such workers. Permanent full time workers were decreased in 53% of workplaces with only 17% reporting an increase.

In Construction workplaces 32% were able to cut costs and, surprisingly in view of the reported changes to the labour force, retrenchment was less dominant. Although 20% of workplaces used retrenchment this method was

matched by a large shift to subcontracting (19%). The increased use of subcontractors in this industry was by far the greatest - the next highest was in Transport (6%). There was also a 9% shift to the use of piece rates. Workplaces in Construction also used a range of other methods, including reorganisation and new technology (12% and 11% respectively) and had the highest reported figure for more work by managers as a means of reducing labour costs (9%). The only other industry reporting this was Wholesale and Retail (4%).

#### *Wholesale and Retail*

The Wholesale and Retail workforce is 70% full time permanent and 20% part time permanent with the next largest group being casual (5%). There was considerable change in the workforce with a tendency to use a more flexible workforce. This was less apparent in the combined figures where the main features were a reduction in the workplaces using permanent workers (40% decrease and 15% increase), an increase in the use of temporary workers (25% with 5% decreasing) and an increase in contracting (20%). When comparing the use of full time and part time

**Table 5. Changes to the construction sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total (1)	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	17	53	0	0	19	56
Fixed term	0	22	0	0	18	22
Apprentices	0	57	0	0	0	57
Temporary workers	0	34	4	7	4	44
Casual workers	20	26	20	3	40	33
Contractors	25	24	10	0	37	26
Homeworkers	0	0	5	0	9	0
Temporary agencies	5	0	0	0	5	5

(1) This includes responses that could not be divided between full time and part time.

**Table 6. Changes to the Wholesale- Retail sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total (1)	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	15	20	4	3	25	40
Fixed term	0	0	0	0	0	0
Apprentices	15	25	0	0	16	25
Temporary workers	0	1	22	3	25	5
Casual workers	3	16	14	6	17	26
Contractors	11	0	1	0	16	0
Homeworkers	0	0	0	0	0	0
Temporary agencies	0	4	0	0	3	4

(1) This includes responses *that could not be divided between full time and part time.*

workers greater differences emerged. Less use was made of full time workers. Full time permanent workers were used less in 20% of workplaces (15% reported an increase), apprentices in 25% (15% reported an increase), and casual workers in 16% (3% reported an increase). There was, however, a 10% increase in the use of contractors. In the part time workforce there was a major reported increase in the use of temporary workers (22% with 3% decreasing) and casual workers (14% with 6% decreasing).

Relative cost cuts were achieved in 34% of workplaces, almost exclusively by retrenchment (55% of cases) and casualisation (11%). There was limited use of work intensification, overtime reductions and reduced wages (6%, 4%, and 4% respectively) There was obviously a limited range of options available in this sector.

### Transport

Full time permanent workers comprise 80% of the workforce in the Transport, Storage and Communication sector with another 9% being part time permanent. There

is thus a low proportion of casual and similar types of workers. Reported changes to the workforce since 1985 showed some increase in the use of forms of non-standard workers. An increase was reported in the use of permanent workers (40% and 23% decreasing) contractors (20% of respondents) and 11% increased their use of full time homeworkers. The use of temporary workers was decreased by 35% of workplaces (19% increased). There was little reported change in the part time workforce apart from some increase in the use of casual workers (10%).

In the this sector, 30% of workplaces were able to reduce their relative labour costs. The main method to achieve this remained retrenchment (36%) followed by the use of part time and casual labour (20%). Other methods included the use of piece rates (8%) and subcontracting (6%) with some use made of new technology (5%).

### Finance

The Finance, Insurance and Property sector was most able to reduce costs and was least reliant on reducing the number of employees and cutting conditions. The

**Table 7. Changes to the Transport sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total (1)	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	23	18	7	1	40	23
Fixed term	0	0	0	0	0	0
Apprentices	11	13	0	0	11	13
Temporary workers	8	0	5	9	19	35
Casual workers	0	8	10	0	10	13
Contractors	20	0	0	0	35	0
Homeworkers	11	0	0	0	11	0
Temporary agencies	0	0	0	0	4	32

(1) This includes responses *that could not be divided between full time and part time.*

**Table 8. Changes to the Finance sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total (1)	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	22	14	5	0	36	34
Fixed term	5	0	3	26	11	26
Apprentices	0	0	0	0	0	0
Temporary workers	11	9	5	0	19	9
Casual workers	3	6	23	0	26	6
Contractors	15	0	0	7	19	7
Homeworkers	0	0	0	8	5	8
Temporary agencies	0	7	0	0	0	7

(1) This includes responses *that could not be divided between full time and part time.*

workforce is predominantly permanent with 82% full time permanent and 11% part time permanent. In the five years up to 1991 the main trends were a reduction in the use of fixed term workers (26% decreasing and 11% increasing), and increases in the use of temporary workers (19% increasing and 9% decreasing), casual workers (26% increasing and 6% decreasing) and contractors (19% increasing and 7% decreasing). 22% of workplaces increased their full time permanent workforce and 14% reduced it. There was also an increase in full time, fixed term workers (5%), contractors (15%) and temporary workers (11% with 9% reducing). In the part time workforce there was a large increase in the use of casual workers (23%) but a decrease in fixed term workers (26% with 3% increasing), contractors (7%) and homeworkers (8%).

42% of workplaces were able to reduce relative labour costs. Retrenchment was important at 31%, but of particular interest was the use of new technology (20%). The use of new technology was rare elsewhere with the exception of Construction (11%) and Transport (5%). Finance was also notable for some intensification of work (12%) and

increased training and efficiency (12%). These methods were virtually unreported in all other industries.

#### *Community and Personal Services*

In this sector, the period since 1985 has been marked by a reduction in permanent full time workers, with 22% of workplaces decreasing their use of this group of workers and 13% reporting an increase. By the time of the survey, this sector had the lowest incidence of permanent full-time workers of all industry sectors. In the permanent workforce changes were not large apart from a tendency to reduce apprentices (11% reported a decrease and only 3% an increase) and to increase full time homeworkers (11% of firms reported an increase and 2% a decrease). 15% of workplaces increased their use of temporary workers and 23% their use of contractors (13% a decrease). The number of workplaces increasing part-time and casual workers was 7% but an equal number reduced this form of worker.

**Table 9. Changes to the Personal Services sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total (1)	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	13	22	9	7	31	37
Fixed term	1	0	0	9	4	9
Apprentices	3	11	0	0	3	11
Temporary workers	4	0	11	0	15	0
Casual workers	1	8	7	7	10	19
Contractors	10	13	12	0	23	13
Homeworkers	9	0	2	2	11	2
Temporary agencies	2	10	2	0	5	10

(1) This includes responses *that could not be divided between full time and part time.*

The Community and Personal Services sector reported a 27% ability to achieve reductions in relative labour costs. A wide range of methods to achieve these cuts were used. Retrenchment remained by far the most common method (42%) but there was also some use of reorganisation (9%). The use of more casualised forms of labour was also noticeable, with 8% of respondents reporting a shift to piece rates and contracts, and 7% the use of part time and casual labour to reduce costs.

#### *Public/Non-Profit*

The Public/Non-Profit sector labour force has the second lowest proportion of full time permanent workers (62%) with the most of the remainder consisting of part time permanent workers (17%) and casual workers (19%). The major feature of this sector was the size of the changes and the reduction of the use of labour in almost all areas. The use of permanent workers increased in 46% of workplaces but decreased in 47%, but 38% of respondents increased their full time permanent workers (26% reported a decrease). The only general increase was of fixed term workers (16%). In all other groups there were large decreases in labour use. There were large reductions in the use of full time apprentices (57% with no reported increase) and temporary agencies (20%). More interesting was the reported changes to the part time work force where there were significant reductions in the use of a variety of forms of casualised part time workers. Between 20% and 25% of workplaces in this sector decreased their use of part time casual workers (but 12% increased), contractors, homeworkers and temporary agencies. Another 18% decreased their use of temporary workers.

In this sector, 30% of respondents were able to cut relative labour costs. Of these, retrenchment was the method reported by 37% but the use of casual labour was also important (31%) Reorganisation (6%), work intensification (8%) and wage reductions (9%) were also used to achieve cuts

## Discussion

The most obvious interpretation of the data presented in this paper is that the response of employers to the period of economic recession has been a short-term reaction to the economic climate rather than part of any long-term strategy by firms. This is particularly so when it is considered that the dominant labour cost cutting strategy has simply been to sack workers rather than reorganise production, reskill workers or invest in new technology.

As expected in the context of the recession, the firms in this survey have substantially reduced their employment of permanent workers. More workplaces reduced their employment of workers in this category than for any other category, with the exception of the large number of workplaces reducing their use of apprentices. The decline in employment of permanent workers is most marked in construction and manufacturing, two industries heavily affected by the recession. The large reduction in overtime hours also supports this explanation. This suggests that the predominant motive of firms has been to survive the recession, even at the expense of longer term costs that might appear in the form of a less skilled workforce if economic growth returns.

The survey responses indicate some movement to a more flexible workforce as a means of reducing relative labour costs. This was achieved primarily by moving work outside the workplace or by the use of non-employees (externalisation) rather than increasing the use of casual and temporary employees (casualisation). The data do not support an overall conclusion that casualisation has been a widespread response to the recession of the late 1980s. Overall, there was very little change in the aggregate number of firms employing temporary and casual workers. Indeed, more organisations in this survey reduced rather than increased their employment of casual workers. The proportion of firms employing fixed term workers did not

**Table 10. Changes to the Public/Non-profit sector labour force**  
*Weighted percentage of workplaces reporting changes*

	Full time		Part time		Total (1)	
	Incr.	Decr.	Incr.	Decr.	Incr.	Decr.
Permanent	38	26	2	2	46	47
Fixed term	0	0	0	0	16	0
Apprentices	0	57	0	0	0	57
Temporary workers	0	0	0	18	0	28
Casual workers	5	5	12	22	17	56
Contractors	0	0	0	20	0	20
Homeworkers	0	0	0	25	0	25
Temporary agencies	0	20	0	20	0	40

(1) This includes responses that could not be divided between full time and part time.



change. The data lend some support to the argument that the peripheral workforce has suffered most from the recession, but this must be qualified by pointing to the dramatic reduction in core permanent workers. One dimension of externalisation has been a prominent response to the recession. Almost twice as many firms increased their employment of contractors as reduced it. On the other hand, other dimensions of externalisation did not increase greatly. There was no pronounced shift towards homeworking, with almost as many firms reducing their employment of homeworkers as increasing it. Equally, twice as many firms reduced their use of temporary agencies as increased it. There was no strong indication of a desire to move to a part time workforce.

The findings in this paper seem to confirm the finding by Ryan (1992, p144) that "forms of flexibility which allow employers to adjust to short-term economic pressures are likely to be preferred over those which require employer investment in training and development..."

The period covered by this paper is one during which employers have had to respond to not only a continuing economic recession but also to large scale deregulation. The pace of these changes and the economic pressure of the recession have clearly limited the options they appear willing to consider as a response to recession and deregulation. In the majority of workplaces it has not proved possible to cut relative labour costs and in those where cuts were achieved they have been achieved primarily by crude numerical flexibility, largely by sacking workers. During the period covered by the survey, it was difficult to reduce wage costs because of the national award system. Even were wages able to be reduced, the literature indicates that savings will be small or illusory. Nevertheless, it seems likely that following the enactment of the Employment Contracts Act, employers will, over time, seek to reduce actual wages. If this is so, and is combined with continued reluctance to consider skill enhancement strategies, it will encourage the emergence of a low wage, low skilled workforce, which is precisely the outcome that the Government claims to be trying to avoid.

A striking result of the survey was the absence of any indication that employers were utilising functional flexibility such as increasing their use of training and technology. If anything, the dramatic number of workplaces decreasing their use of apprentices indicates the opposite pattern. If these conclusions are correct, it raises the potential for major problems relating to future skill levels in New Zealand. These patterns will need to be reversed if the recent interest in and support for workplace reform is to gather momentum.

The only industry to report any real level of training and capital development in the reduction of labour costs was the finance sector. This industry has been opened to strong competition, but seems to have reacted to it by a relatively low use of retrenchment and seems to have been able to constructively reorganise internally. New technology also

played some role in construction, presumably the use of new building technologies, but of greater note was the high reported use of subcontracting to reduce costs. One explanation for this is the very low rate of unionisation in this industry which may have facilitated greater externalisation. Outside this, industry levels of unionisation do not seem to have had a major impact on cost cutting strategies.

## Future Research

Although there has been considerable political debate on labour market flexibility, there has been relatively little empirical research on which to base this debate. In the future it will be important to assess the degree of flexibility at the level of the firm and the workplace and how this responds to economic and legislative changes. Based on this paper future research might look at the degree of training and re-skilling being carried on at the workplace, aspects of flexibility that seem to be lacking based on the results of this survey.

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