

"The fully employed high income society": a reply

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1. Introduction

I am pleased to have the opportunity to reply to John Robinson's charge of "unprofessional wishful thinking" and his confident assertion that the model runs reported in *The fully employed high income society: a comment* "have shown clearly that full employment by 1995 is next to impossible".

In one sense the charge of wishful thinking is true. In opening the report, I posed 2 questions: "Is full employment possible?" "If so, can we also secure increasing levels of income and wealth?" and went on to say:

The prolonged recession of the late 1980s, falling living standards, and rapid structural change in an atmosphere of continuing crisis, have bred pessimism about New Zealand's long term prospects. They have also encouraged the belief that unemployment and stagnant incomes are now permanent features of life.

Such attitudes compound the challenges already facing New Zealanders, and they are partially self fulfilling.

This report offers something of an antidote. It suggests that sustainable full employment at high wages is a feasible goal - neither simple nor easily achieved, but feasible (Rose, 1990, p.1).

Sustainable full employment with high incomes has been affirmed as a national goal by the Planning Council. My brief from them was to provide a sketch of what a fully employed high income society might look like in the mid 1990s.

My report sketches the essential features of such a society and, in the process, tests its feasibility. In doing so, our hope was to help build commitment to that goal and to promote widespread analysis and discussion on the changes necessary to achieve it.

So, part of my job was to articulate a commonly shared dream and test it against reality. To that extent, I am happy to be accused of wishful thinking.

Robinson thinks I have gone further and indulged in "unprofessional wishful thinking". Like anyone else I make my mistakes, but let me simply note that my report was widely circulated amongst professional and other colleagues in first and second drafts and extensively amended in the light of comments received. The report benefited from critical input on many issues and points.

The awkwardness in modelling time span (around which most of Robinson's criticisms revolve) was discussed in detail with a project support group. That group noted that I had repeatedly identified the problem and judged that readers could garner a clear picture of what we had done from the text. Robinson's extensive quotations from my text confirms that I left a detailed record. I return to those matters later.

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2. The major conclusions of the report

Robinson asserts that "the major conclusions of the report are the first 3 items in the Conclusion". That is a travesty and creates the impression that my report is limited to an exercise in computer modelling. In fact the report ranges widely as can be judged from a reading of the other 9 "major findings" listed in the Conclusion, and reprinted below.

- National productivity increases of 2 or more percent per annum are not all that exceptional in international or historic terms but they are well ahead of those in recent New Zealand history.
- Productivity increases stem from a wide range of factors, but they hinge on the responsiveness of institutions, enterprises and individuals to the rapidly changing international economy.
- There is a consequential need for institutions, enterprises and individuals to enhance their adaptability. Improved management of people and processes, well directed research and development, attention to quality and imaginative marketing are all important. Adaptive workplaces and an adaptive workforce are essential elements of a fully employed high income society.
- The model runs suggest that higher rates of investment would, by enlarging our country's capital stock, and provided the investments are well chosen, make it easier to expand economic activity and employment.
- The models also suggest that attempts to clear labour markets by adjusting wage relativities would require very large drops in wage rates paid to semi- and unskilled blue collar workers.
- The report notes differences of opinion relating to the role of macroeconomic policy in relation to employment, and it suggests that resolution of these differences is important in terms of securing movement to a fully employed high income society.
- It is suggested that there is a need for increased attention to the possibility of forming common perspectives on prospects and policy issues at industry level.
- The report notes that changing social and community patterns cause change in labour supply. The conceivable scale of changes is illustrated in the areas of educational participation, earlier retirement, gender changes in unpaid caring, changes in the working week, and changes in the working year (Rose, 1990, p. 38).

Having stated these major findings the report concludes:

The analysis certainly suggests that a fully employed high income society in New Zealand is possible and well worth striving for. It also suggests that the goal cannot be reached easily, nor simply by changes in the policy decisions made by central government. Changes will also be required in the responses and behaviour of individuals, families, communities, firms, unions, educational institutions and many others. Attainment of the goal of sustainable full employment at high wages presupposes that all institutions and individuals exercise such options as are open to them to help shape that dream to reality (Rose, 1990, p.38).

3. Our use of models in the report

Robinson's criticisms relate in large part to our use of computer models. In introducing this central section of the report we are careful to state the limits of what we are about:

In this section two computer models are used to explore the implications of increased, productivity, higher investment, and more flexible wage relativities Economic models are dogmatic but uncertain creatures Although the 1995 figures are usually labelled as forecasts they are not really that. They are projections made by two linked models based in the mid 1980s over the span to 1994-95. The early years of that period are already history, but are not part of the written record available to the models. The forecasts should be seen as indications of the scale of change that could occur in the period ahead, rather than as actual forecasts for 1995 (Rose, 1990, p.16).

At this, and many other points, I make it quite clear that we are not generating a forecast in the sense of a prediction of the most likely outcome for 1995.

Rather, we are using a model projection, focused on that year, to explore the implications of some limited variations in modelling assumptions. To do this, we adopt a previously published set of Planning Council sectoral forecasts (the unwelcome employment implications of which led the Council to adopt full employment as a major work thrust in its own work programme) as reference point or base case.

This use of an established set of forecasts as a reference point had the advantage of enabling us to focus on the effect of a limited number of changes. Its disadvantage was that it was a somewhat dated set of forecasts which did not take account of most recent changes.

Against this base case for 1995, we worked 3 variations in each of which "the model is told to reduce the unemployment rate to 2 percent of the available labour force" (Rose, 1990, p.17). In the first variation we double the rate of productivity increase from that in the base case and assume that the available capital stock in 1995 is 5 percent higher than in the base case. In the second variation we leave productivity as in the base case but assume that the available capital stock in 1995 is 5 percent higher than in the base case. The third variation is the same as the second except that we allow the model to adjust occupational wage relativities which had previously been held fixed. Before looking at some of the numbers, 2 points need to be made.

First, our practice goes a long way towards Robinson's ideal of reporting one parameter change at a time. He acknowledges that we have in fact done this almost as an afterthought to his accusation that we have not. There is of course a problem with the ideal. Readers can easily become confused by a plethora of model runs reporting all possible variations. Thus we could have generated 7 variations involving combinations of the 3 primary changes in productivity, capital stock and occupational relativities. I am happy with our decision to limit our reportage to 3 variations.

Secondly, the fundamental point of any one variation is to explore the nature of the linkages revealed. Thus, in variation one, having told the model to double the rate of productivity change, increase the capital stock and move to full employment, we are able to trace something of the connections. My report notes that increased productivity tends to lower output costs, and so contribute to higher levels of exports and production for the local market. The associated increases in output act to expand demand for labour and thus contribute to the employment goal.

Variation one also shows that incomes tend to rise. From this, we conclude, as Robinson reports, "The model runs suggest that faster rates of productivity increase will provide the fundamental basis for competitive expansions in output, employment and incomes" (Rose, 1990, p.38). The point could probably have been stated more strongly. Improved productivity is a precondition of the simultaneous attainment of higher real

incomes and full employment. That point is widely, but by no means universally, recognised and a major concern in writing the report was to help readers assess the nature and the strength of the linkages between productivity, incomes and employment.

4. 1995 and all that

In addressing the question of whether full employment is possible by 1995, let me first of all acknowledge that in writing the report I did not intend to essay a judgement on the probability of such an outcome by that date, or indeed to focus on that year in particular. 1995 was adopted as a convenient point for modelling and well hedged around with qualifications. The political adoption of 1995 as a target date for full employment, which I welcome, has placed a heavier than anticipated load on the wording of my summary restatement of conclusions as reported by Robinson.

Had I anticipated official adoption of that date, I might well have modelled a somewhat lesser increase in productivity. But that would not have changed the essential outcome. As far as the model was concerned, full employment was secured by assumption (as reported quite clearly by us in the report). The primary modelling consequence of a lesser increase in productivity would have been full employment at levels of income slightly less than those reported.

Whether full employment is a feasible goal for 1995 is a question for judgements based on wider than modelling grounds. My own pragmatic position is that 5 years is a long time away and that if we are serious about full employment as a goal, then we should certainly be working to it over that span. If we find that we can get there sooner, well and good. If analysis suggests that some things stand in the way of achieving that goal then it is important that we identify those as soon as possible, and examine ways of overcoming them.

In all this, models do have a part to play. They help form a quantitative understanding of the strength of some of the key relationships and thus help contradict or firm up our judgements. At this point, we need to examine the various quantitative points advanced by Robinson.

5. Required increases in employment

In an early section of my report, I attempted to give readers an idea of the scale of the annual increases in employment that would be necessary to return New Zealand to full employment over various time spans. Obviously, the shorter the time span available, the more difficult the problem. I report on the basis of some approximate figuring based on earlier Planning Council work that "a return to full employment by 1995 would require creating an additional 33,000 jobs each year from 1988". Note that our 1988 figure is in fact a 3 year average centred on 1988 and thus includes data up to 1989.

That point recognised, it still remains true, as noted by Robinson, that the time span over which we compare labour force and employment projections includes an opening period in which actual employment has declined, thus increasing the extent of employment growth required to achieve full employment by 1995. Note however, as in Robinson's quotation from my report, that labour force participation rates have also fallen sharply, thus reducing the total labour supply, again contrary to our previous expectations.

To get a more accurate fix on the extent of job growth needed over the next few years, we thus need a more recent set of labour force projections which take account of recent developments and are sensitive to changes in the rate of economic growth during the forecast period.

The New Zealand Institute of Economic Research has published labour force forecasts in the September 1990 issue of *Quarterly predictions* (NZIER, 1990, p.47). These suggest that the labour force (measured as the sum of full and part time workers) will increase from 1,587,000 in March 1990 to 1,692,000 in 1995. Employment in 1990 was 1,471,000 and would need to increase to 1,658,000 by 1995 to yield a 2 percent unemployment rate. That is an increase of 187,000 or 37,000 a year which, if converted to full time equivalents, would give something of the order of my original estimate.

Against that, we need to note that faster employment growth would probably lead to a recovery in participation rates. To the extent that this is so, the required annual increase in employment is likely to be higher than suggested on the above figuring and in my paper.

6. Changes in productivity

As already noted, our modelling of productivity change was a little awkward.

In exploring the implications of increased productivity we had to hand our earlier set of Planning Council forecasts which drew on an extensive canvassing of opinion on likely future rates of technical change in all sectors of the economy supplemented by in house research. Those forecasts, published in late 1988, were anchored on the 1983-84 input output tables and spanned the period from 1986 to 1997. Averaged over all sectors, they gave a national rate of technical change of 1 percent per annum. For modelling purposes we simply doubled each sectoral rate so as to give an average of 2 percent per annum, also over the 9 year period from 1986 to 1995 (and not 11 years as erroneously reported by us at a couple of points in the text).

With hindsight, it might have been better to model the productivity increase over a shorter period but, as already noted, that would not have affected the pictured 1995 unemployment outcome which was set at 2 percent by assumption. What it would have given is somewhat lower levels of income in 1995.

As it happens, there is some evidence which suggests that recent increases in productivity have been not only higher than forecast in *Prospects* (New Zealand Planning Council, 1988), but higher than modelled in *The fully employed high income society*. Thus, the July 1990 *Economic strategy*, which accompanied the Budget, suggested that in 3 of the 4 years to 1990, labour productivity increased by between 3 and 4 percent per annum (the other year saw a rise of just under 1 percent) (Caygill, 1990, p.24). Although it will seem to offer little comfort to those displaced in the process, we can only note that such productivity increases increase the chances of a successfully performing New Zealand economy in the 1990s.

7. Capital investment alone

Robinson claims at one point that the entire employment growth generated in our model runs results solely from increased investment. As already indicated, that reflects a mistaken reading of my report. In model terms, we could equally have generated full employment by productivity change alone or through wage flexibility alone.

As it happens, we do think that investment is important, which is why we modelled the increase. Moreover, concern about the adequacy and efficiency of current levels of investment was one of the major factors underlying the extensive discussion in my report on current controversies on macroeconomic policy. My primary concern was to stress the importance of this debate to employment outcomes, and to sketch the major points on which judgements differ as a means of assisting that debate towards a resolution.

8. Blaming the victim

In his concluding section, Robinson accuses us of being dogmatic and ideological and using words which "smack of the growing tendency to blame the victim".

As evidence, Robinson advances the following "quotation" from a shortened popular version of the report. "The return to full employment requires a commitment, and action, from each and all of us."

What our summary actually says, in context, is

Full employment is not something that can be left to government, or to employers, or to unions alone. The return to full employment requires a commitment, and action, from each of them and all of us (New Zealand Planning Council, 1990, p.1).

The words "each of them" contradict Robinson's assertion.

In Gary Hawke's foreword, the same point is made in a slightly different way

It (the report) also has some important things to say about the requirements for reaching our goal. There are no simple solutions. Full employment will require action and commitment on many fronts - from government, individuals, firms, unions, communities and other agencies. We cannot load all our expectations onto one set of measures, or one agency, and avoid the responsibility ourselves (Rose, 1990, intro.).

The major emphasis in my report is on the magnitude of the problem that we face and the breadth of the response that it calls for. To suggest that this smacks of blaming the victim is simply perverse.

9. Conclusion

In recent discussions, with a wide range of audiences, I have come to identify 7 key areas in which change is needed if we are to move towards the goal of sustainable full employment with high incomes. These are, in no particular order of importance:

- productivity
- labour market flexibility
- education and training
- sectoral policy
- programmes for the unemployed
- participation rates.

These were all discussed, to different degrees, in the original report. My concern now is to stress that movement towards full employment requires attention to each of these areas and identification of priority issues within each. Whether successful action on all these fronts can take New Zealand to full employment by 1995 must remain an open question, but it would certainly take us in that direction.

The difficulties ahead are substantial, but for my part I welcome the setting of specific quantitative employment objectives by both the major political parties. Undoubtedly, "full employment by 1995" (Palmer, 1990) and "a halving of the levels of unemployment" in "National's first term" (National Party, 1990) are both ambitious targets, but they have the virtue of establishing reference points against which we can start to judge the effectiveness of policies directed to the goal of sustainable full employment at high incomes.

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