

**Grant Robertson speech to The Productivity Hub, Wellington, 13 February 2018,
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The Future of Work: Adaptability, Resilience, and Inclusion

Thank you for inviting me to speak with you here today. In particular I want to thank the Productivity Commission and all involved in the Productivity Hub.

The previous presenters today have touched on a range of ideas for how we can face the challenge of improving our productivity in a changing world. From technology and data to public services and the energy transition, I'm excited to see forward thinking people working on such a broad range of important topics. I'd like to commend you all and encourage you to keep up the good work.

My presentation today will focus on an issue that is at the heart of a productive economy, how we approach the rapidly changing world of work. I want to talk about how this fits with the overall economic strategy of the Government, the core policy areas that we have identified to support New Zealanders in this process and the institutional settings required to meet the challenges and seize the opportunities of the Future of Work.

Economic Strategy

By harnessing the potential of new technology and innovation, educating and upskilling our workforce, and incentivising research and development, we can lift productivity and transition to an economy that is sustainable, inclusive, and productive. That is this Government's overarching economic aim.

The lessons learned from the Future of Work Commission heavily influenced this Government's economic strategy. We aim to shape an economy where we work smarter, make better use of our resources, ensure everyone who wants to work can work, and ensure that the benefits of growth are spread across society.

In an article published this past weekend, Rod Oram argued that: "we can rise to the immense challenge of making this a high value, high wage economy over the next decade. The global and local conditions for doing so are the most favourable ever."

I know there is an appetite among businesses and workers to take up this challenge, and I couldn't agree more that the time is right to face up to this.

Boosting productivity across the economy will be one of the key drivers to improving New Zealanders' living standards and wellbeing. The Government will put this at the heart of what we do.

Our focus on lifting wellbeing will require a different approach and different measures of success. We want to take a broader view of success and move beyond simple measures such as GDP, which, while an important measure of economic output, does not tell the full story of peoples' wellbeing.

We are working with our Confidence and Supply partner, the Green Party, on new sustainable development indicators, to paint a fuller picture of how well off people are and how the Government can focus its resources best.

I have also instructed the Treasury to accelerate their work on the Living Standards Framework, which measures the impact of policies on four capitals: Human, Social, Natural, and Financial/Physical.

I intend to use this framework to inform the Budget process for Budget 2019, making it our first ever Wellbeing Budget. By placing wellbeing at the heart of what we do, we will be able to measure the extent to which our policies and investments are making real improvements to peoples' lives.

Improving productivity is key to improving wellbeing. By producing more from every hour worked, businesses become more profitable, incomes rise, and workers' wellbeing rises as time is freed up and purchasing power rises. The challenge is, how we achieve this?

The Changing World of Work

This Government has come into office at an interesting time in New Zealand's economic story. Technological advances are transforming our world, for example through increased processing power and big data, sensors, remote work, or smart devices.

The full effect of forces such as automation, algorithms, and globalisation are not yet known, but we do know that they already are, and will continue to be, disruptive to what only 5 or 10 years ago we considered the status quo.

My thinking on this topic was shaped by the Future of Work Commission which I chaired for the Labour Party when we were in Opposition. It was an ambitious undertaking that saw us engage with thousands of New Zealanders and experts from around the world. It is hard to distil that work down to a few points, but overall, my takeaway is that there is an enormous possibility for us to have productive and fulfilling work over the coming decades. But it will only happen if we prepare now.

We are facing a world where the change has been estimated by McKinsey Global Institute to be occurring at ten times the pace of the Industrial Revolution and 300 times the scale, or roughly 3,000 times the impact. Every aspect of our working lives is changing. Whole jobs are disappearing and almost every job is being re-shaped. The very notion of what a job is has been challenged by the so-called gig economy.

Advances in technology present both challenges and opportunities for this, sometimes all at once.

For example, a company which automates production of its products will experience productivity gains, but there might be consequences for the company's workers.

What happens to those who are laid off? How well positioned are they to quickly retrain? Could their past training help them swiftly move into other work?

How can we benefit from changes to the nature of work while negating or limiting the disadvantages?

We cannot say with any certainty exactly what the world of work will look like, but there are some core changes we can identify, and the responses to them that are needed.

This represents both challenges and opportunities. How we respond will drive the future of New Zealand's economy and shape how productive, sustainable and inclusive our growth will be over the next few decades.

We all know the story of the New Zealand economy. Over the past 20 years, New Zealand has generally done well in the 'creating more' part of the productivity equation. GDP growth has averaged about 2.8% over that time, compared to the OECD average of 2.1%.

But it's the other part of the equation – the resources required to create more – where we have been weak.

Of that headline growth, about 1.7% can be attributed to growth in the volume of labour input, or simply, total hours worked. In other words, we required strong population growth and more people entering the workforce to ensure more hours were worked in order to increase production. More people working is not a recipe for long-term sustainable and inclusive growth.

The portion of that growth which can be attributed to getting more from each unit of labour in producing goods and services has been 1.1% of that 2.8% over the past 20 years – that is, we are one of the weaker performers in the OECD.

In fact, our relatively low labour productivity growth over a long period of time means the level of labour productivity in New Zealand - GDP per hour worked - is about 20% below the OECD average.

The Productivity Commission has told us that New Zealand's shallow capital markets have meant low levels of investment of productive capital – the stuff we need to invest in to help us create more from our available resources.

Our investment in non-residential capital per person in the labour force in 2016 was 25% lower than the OECD average. In order to get ahead in terms of headline growth, we relied on more people coming here to work, and those who were already here, to enter work.

We are at a point where the level of labour productivity in New Zealand – GDP per hour worked – is around 30% below Australia. We have to do something different.

In recent years the main growth drivers have been population growth and a run-away housing market. That is not a sustainable path, and as those forces recede we need to move deliberately and with urgency to establish an economy that is based on a thriving productive sector.

We also have to ensure that the benefits of this growth translate into meaningful improvements to the living standards of many New Zealanders who missed out in recent years.

I spoke earlier about our Government's emphasis on wellbeing and delivering higher living standards for all New Zealanders. We want to ensure the economy is delivering real benefits to peoples' lives, rather than simply pursuing growth for the sake of growth.

Our success in achieving this will largely be determined by how we respond to the challenges we face, including New Zealand's productivity challenge.

With this in mind, today I want to talk you through this Government's plan to ensure we are prepared to face the changes that are coming due to technological advances and the changing nature of work.

In responding to this our Future of Work report identified three core values to drive our response:

We need to be:

- Inclusive, offering opportunity and harnessing the talents of all;
- Resilient, to deal with the changes and shocks that are coming our way; and
- Adaptable, to be leaders of the change and shape it in line with our values.

There are a huge range of policy approaches and changes to the way we run our economy that are needed to meet these challenges and take the opportunities that will arise. Our Tax Working Group and the reforms we are making to the Reserve Bank Act are an important part of setting the path to a more productive economy. That focus on improving productivity is at the heart of the terms of reference for both these reviews.

Beyond these, we had more than 63 recommendations in our report, and you will be pleased I am not going to go through them all now. I want to touch on just a few of the main themes.

Just Transition

In the face of this rapid change it is essential that we have a just transition for those most affected. We saw in New Zealand in the 1980s and 1990s the damage that can be done when major changes are made without enough thought or support given to those who face the immediate consequences. In this instance I am using that phrase to primarily talk about two things - one at a system level, the other at a practical on the ground level.

The government has committed itself to the goal of a net zero carbon economy by 2050. This is an essential shift for New Zealand away from an economy that hastens climate change to one that is more sustainable and develops New Zealand's strategic advantages.

We will need to ensure this is a just transition where affected industries and communities are given the support to find new sustainable growth opportunities.

We are in the process of establishing an Independent Climate Commission which will have the job of establishing goals and targets. Meanwhile, under the leadership of Hon James Shaw, a Green Investment Fund is being created to leverage private sector investment to support business developments that will support a low carbon economy.

Innovation, science and research will have significant roles to play in this. However, New Zealand's total investment in Research and Development is only 1.3% of GDP – about half the OECD average. When the OECD issued its most recent assessment of the New Zealand economy last year, this is what it had to say on R&D:

“Expenditure on R&D is low as a share of GDP, most notably in the business sector. Collaboration between firms, education and research institutions is low.”

And its advice: “Increase fiscal support for business research and development. Maintain or increase long-term support for successful collaboration between research institutions and industry.”

In the Coalition Agreement with New Zealand First we have set a target of hitting an R&D spend of 2% of GDP in ten years. That's more than a 50% increase in R&D investment relative to GDP over that time and will make a significant contribution to improving our productivity.

Officials say that this is an ambitious goal. We believe this can be done, with the Government incentivising such vital work by the private sector.

Minister for Research, Science and Innovation, Megan Woods, has already begun work on overhauling New Zealand's R&D regime, with Ministers set to discuss officials' initial findings later this month. We are committed in the first instance to restoring R&D tax credits to give firms some certainty about their investments.

One other key investment identified in our Future of Work programme is in direct support of the technology sector and for businesses to make better use of new technology.

Research by Swedish academic and technologist Goran Roos found that 55% of New Zealand jobs are at risk due to technological advances, and that countries likely to be least affected will be those with the highest levels of economic complexity.

This is just one of the reasons why it is important for us to diversify our skills base and look for more sustainable drivers of growth. By putting the right policies and incentives in place, the technology sector can be one of those economic drivers.

While technological advances present challenges to existing jobs, we also have the opportunity to create new forms of work.

According to NZTech chief executive Graeme Muller, only 14 percent of large NZ businesses have deployed any enabling technology for the Internet of Things, despite 70 percent believing it will be strategically important for their business to do so. Their concerns are largely around costs and changes in technology.

This Government wants to nurture an environment that gives businesses the confidence to take up new technology. Minister Clare Curran is in the process of creating the position of Chief Technology Officer (CTO), who will report directly to the Prime Minister and Cabinet. The CTO will be responsible for introducing and managing a “National Digital Architecture” and “Digital Technology Roadmap”. They will also work with the wider industry to develop ingenuity and creativity in the ICT sector.

Our aim is for the ICT industry to be our second-largest contributor to GDP by 2025.

Learning For Life

The other critical element of a just transition to this new world of work is how we support people to gain the relevant skills and knowledge. We need to both support those workers whose jobs are under threat, and prepare those who are yet to start working for the kind of labour market they are likely to enter.

New Zealand currently spends a fraction of what other countries do on active labour market policies. Other countries around the world such as Singapore, France and Germany have recognised that they need to both plan ahead for the changes but also provide greater support for people who are displaced by technological change.

The Future of Work was the catalyst for our three years’ free training and education policy. One of this Government’s key policies is to provide one year of free post-secondary education or training, gradually progressing to 3 years by 2025.

In 2018 we will see 30,000 students enrolled in tertiary education courses and 50,000 in industry training without paying fees for their first year of education thanks to this policy. This is extremely important for those whose jobs – or future jobs – are affected by automation and other technologies.

One aspect of this policy has not had a lot of attention, which is for adults who have never trained or studied before. They will be able to take up the three years free policy as it is rolled out. This can be taken in short bursts or as complete re-training.

This policy also covers the costs of those undertaking apprenticeships and aspects of industry training. Because of the relative costs from 2018 this means two years free for apprentices right away.

For the next generation of people entering the workforce it is essential they are given the skills to be resilient and adaptable. In the Future of Work Commission’s time we heard from employer after employer that they were looking for people with what we once called “soft skills” - the ability to collaborate, be creative, and solve problems.

These ideas lie at the heart of New Zealand’s education curriculum but there is work to do to ensure they are developed for all our young people. We will be embarking on a host of initiatives to see this happen including reform of our careers advice and guidance in schools to give all young people the opportunity to understand and experience the world of work.

This will be developed in close cooperation with business and training providers to create a more seamless transition from school to whatever comes next.

In January Employment Minister Willie Jackson announced the first of a series of initiatives to help give a group of young people who have fallen outside of the system, sustainable work opportunities.

Sadly, Maori and Pacifica young people are over represented among this group. They are the most at risk of being excluded from the future of work and we need practical programmes that provide work experience to get them back into a training journey.

In the long term I believe we will need to radically alter the way we think about training and learning and work if we are to continue to lift productivity. As the pace of technological change picks up we need to see ourselves as genuinely learning for life. In many ways “jobs” will be events on that learning and training journey rather than the other way around. This presents a series of challenges and opportunities for our education and training system that we will look at over the coming years.

There are of course many other areas of policy response that will contribute to our response to the Future of Work, but I wanted to finish today on what systemic changes we will need to ensure we are leading the change rather than being passive recipients of it.

Active and Capable State

A critical element identified in our Future of Work report is that the state needs to be an active participant in how we shape the future of work. It is important to note that by “active”, I do not mean that it controls or dictates what happens, but rather that we move beyond the tired and dangerous idea that we can simply leave the response to market forces to decide how New Zealand fares in the future world of work.

This means working alongside businesses to identify opportunities, as noted above in the R and D and Tech sectors, for example.

It means developing a new partnership between the Crown and Maori as the settlement of historic Treaty breaches comes to an end and opportunities for economic development emerge.

It also means being innovative and entrepreneurial when that is appropriate. We are wanting public servants to co-design with both politicians and the wider community what we can do to stay ahead of the curve.

A major example of this is the Provincial Growth Fund developed as part of our coalition agreement with New Zealand First. This will see significant investments in the regions of New Zealand to grow sustainable and productive job opportunities.

The details of the Fund are to be released shortly and will provide some of the most significant development of our regions in decades. These will be driven from the ground up, with the Government as an active partner.

A New Social Partnership

It is my strong belief that the most critical element to New Zealand succeeding in the Future of Work is a renewed social partnership between businesses, workers and the government.

In the course of our Commission we saw examples in both large and small businesses of innovative approaches to this idea.

Air New Zealand's "High Performance Engagement" model is one useful example. By involving workers in the full range of strategic decisions and change processes, Air New Zealand has not only seen significant productivity benefits, they have created far more harmonious workplace relations.

In a number of the new smaller technology businesses we have seen flat management structures and workplace democracy in action that is core to the way they run their businesses.

These companies give a significant voice to their employees, and have seen productivity growth and improved workplace relations as a result. We are working with MBIE and others to facilitate these approaches across a range of industries.

We can also see innovations happening in the way we work. An example which has grabbed attention recently is Perpetual Guardian's decision to switch to trial a four-day working week for five days' pay.

The move was designed to improve workers' wellbeing – by giving them more time to spend with family and on other aspects of life – with the expectation that this will enhance their productivity during the days they do work – the same levels of output for fewer hours worked.

These are the kinds of practices that we need to see more of. If we look at Germany as an example, union members often sit on company boards as part of the decision-making process, ensuring that employee wellbeing is considered alongside high-level corporate profit and financial targets.

It is unsurprising then that German workers on average worked the fewest hours annually in 2016 of all OECD countries, with New Zealand workers on average doing 400 more hours every year.

This is possible because Germany's workers are also some of the most productive in the world.

I want to see New Zealand reach a point where we are able to work 400 fewer hours a year while producing more than we do today. For us to get there we need to make the advances in productivity we have been discussing today. Technological improvements will play a huge role in this.

One of my goals as Minister of Finance is to develop this new partnership at a system-wide level to promote a combined work stream on how we can apply these lessons to other industries and sectors.

My parting challenge to the many public servants here today is to think about how we can do this across Government and break down some of the silos we have created to enable businesses and workers and their representatives to easily engage in such a partnership.

Conclusion

I am most certainly not the first New Zealand politician to both highlight the challenge of low productivity, nor to say that we will address it. So the proof will be in what we actually do.

But we are in an environment that has change occurring at a pace and scale we have never seen before. We have to take the opportunity now to capitalise on that to finally make the leaps that have so far eluded our country. We have already made a start with the initiatives I have mentioned today.

I want us to re-write our productivity story, so that New Zealand becomes a leading example of a sustainable and productive economy in which everyone gets a share of economic success.

We have a long way to go, but this Government is committed to tackling the long-term challenges that this country has faced for many years. I look forward to working with you on this journey. Thank you.