THE PRODUCTIVITY-ENHANCING IMPACTS OF THE MINIMUM WAGE: LESSONS FROM DENMARK, NEW ZEALAND AND IRELAND

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Abstract

There has been increasing interest of late in the question of whether minimum wage regulations can raise productivity through the 'shock effect'. This paper explores this question in comparative perspective, by examining the impact of minimum wage regulations and institutions in Denmark, New Zealand and Ireland. It argues that while they are important, a supportive institutional framework plays a far more crucial role in providing coordinated solutions to issues of market failure, such as inadequate levels of training. The paper suggests that sectoral bargaining institutions in low-paid sectors may have the potential to facilitate such coordination and enable the high-productivity model to emerge. For the UK context, this raises the question as to whether Wages Councils in a modernised form might have some future role to play.

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Introduction

One of the arguments in favour of a minimum wage is that it has the potential to increase productivity by encouraging employers to invest in training and to adopt a quality-based product market strategy in order to offset rising wage costs. Thus, firms are 'shocked' into adopting a 'high road' approach rather than a cost-minimisation one. This hypothesis has been the subject of much research in the UK recently. When a NMW was introduced by the Labour Government in 1999 there were predictions that this would happen (LPC, 1998:15), but the evidence suggests it has had limited impact in this regard. In trying to explain this, a number of contributions have pointed to a range of institutional constraints on employers that prevent them from responding in the predicted way (e.g. Grimshaw and Carroll; 2006), while others have begun to look at the institutional supports necessary to enable firms to overcome these constraints (Edwards et al., 2002).

Drawing on the experiences of Denmark, Ireland and New Zealand, this paper seeks to add to our understanding of the sorts of institutional arrangements that encourage firms to adopt a 'high road' strategy and those that undermine this objective. In particular, the paper focuses on the issue of training. This is for two reasons. Firstly, investment in human capital is the most obvious route to raising productivity for many low-paid, service-intensive industries, such as retail and hospitality. And secondly, skills shortages and insufficient training are significant problems in both Ireland and New Zealand, despite comparatively high minimum wages. Underpinning this are competitive product market conditions, poor profitability and high staff turnover. Thus, the paper argues that simply increasing firms' costs by raising the minimum wage will not be enough to 'shock' low-paid industries down the high-productivity route, because the issue of low pay is inextricably linked with these other factors. As the paper will show, Denmark illustrates the benefits of a coordinated approach to these issues and the complementarities that can be delivered through a supportive institutional framework. Both Ireland and New Zealand are attempting to implement innovative solutions, but in each case voluntarist approaches are employed and questions are raised about whether the appropriate institutional mechanisms are being created. One institutional mechanism that the paper suggests may have the potential to both support and shock firms down the 'high road', is legislatively supported industry bargaining mechanisms. These might do so by enabling training outcomes to be embedded in the wage bargaining system, while providing the forum for interrelated and complex industry issues to be addressed. For this to occur, institutional arrangements need to be developed that facilitate industry coordination and are underpinned by social partnership.

Productivity and the minimum wage

Among the most articulate supporters of the proposition that a minimum wage can provide a boost to productivity through transforming firms' competitive strategies and employment practices have been Wilkinson, Brosnan and Deakin (e.g. Brosnan, 2003; Brosnan & Rea, 1991; Brosnan & Wilkinson, 1988 & 1989; Deakin & Wilkinson, 2000 and 2005; Wilkinson, 1983). Beginning with Wilkinson's seminal paper in 1983 they have consistently promoted this thesis, arguing on the basis of 'productive systems'. In the context of a low minimum wage (or no minimum wage), the availability of low-wage labour means there is little incentive for employers to increase productivity through investing in new technology or worker training, or to re-organise production. Firms can become trapped in a 'productive system' that competes on low-cost rather than on the basis of quality, service, innovation or technology. By introducing or raising the minimum wage, low-cost firms will be 'shocked' into adopting the high-productivity road to competitiveness. Rising wage costs will place pressure on management to raise productivity through more efficient work practices, advanced technology, or a value-added product market strategy. These all imply the need for greater skill levels and an emphasis on providing on-going training. Employers, therefore, will be keen to reduce turnover given the added investment in their workforce. This gives employees greater bargaining power and the potential to bargain for even higher wages. Hence, the high-productivity route becomes a virtuous circle.

Good employers may realise the benefits of competing on the basis of a management strategy that focuses on innovative employment practices or value-added product market strategies, rather than strategies that focus on cost-minimisation. However, in product markets where cost-based strategies dominate, pursuing such a long-run approach may be difficult to sustain due to price undercutting by competitors. Thus, the argument is made that a minimum wage can promote such long-term strategies on a wider scale, driving an entire industry towards a more 'productive system'. Clearly this is not a process of events that will occur in a short space of time, and it is for this reason that Deakin and Wilkinson (2005: 346) refer to it as long-run dynamic efficiency, in contrast to the orthodox and rather static view of efficiency.

The UK National Minimum Wage and employer responses

Some of these arguments for the productivity-enhancing effects of a minimum wage have gained significant currency in UK policy circles. For example, the Department of Trade and Industry (DTI, 1998) in its evidence to the Low Pay Commission (LPC) cited the likely benefits of a minimum wage on training and thus on productivity. The LPC (1998:15) initially agreed, and pointed to the way in which the NMW would encourage firms to compete on quality as well as price, and to increase productivity by investing in training, raising employee commitment and reducing staff turnover.

However, despite the predictions the empirical evidence suggests that there has been little impact in this regard, and more recently the LPC has acknowledged this (LPC, 2003: 69). A range of studies assessing firms' actual responses to the implementation of the minimum wage have been conducted in the UK since 1999. These have tended to focus on the responses of small and medium sized enterprises, as it is in these firms that the NMW is likely to have the greatest impact (Arrowsmith et al., 2003: 435). The results show that, while a small number of firms have responded to the minimum wage by increasing training or adopting a niche market strategy (e.g. Drucker et al., 2005), and a small number have been driven into the grey economy (Ram et al., 2001), by far the most common response has been 'business as usual'. Thus, the NMW in the UK has had no noticeable shock effect (see review by Grimshaw and Carroll, 2006: 25-29).

The minimum wage and the wider institutional framework

What then do these results suggest about the potential for a minimum wage to encourage employers to improve employment practices or adopt a value-added product market strategy? One reading is that the minimum wage is not high enough to set in motion the long-run dynamic process that Wilkinson et al. describe, a view expressed by many commentators (e.g. Grimshaw and Carroll, 2006: 23; Deakin and Wilkinson, 2005: 342). This may be part of the explanation as the minimum wage in the UK is only around 40 percent of average earnings, which is slightly below the OECD average (DTI, 2006: 90). Given the range of indeterminacy that exists in the setting of wages in small firms in competitive industries (Gilman et al., 2002) and the tendency towards informality in the employment relationship (Ram et al., 2001), the additional costs imposed by the NMW could be absorbed without firms having to adjust their practices (Arrowsmith et al., 2003).

A second explanation is that a high minimum wage is not enough on its own to encourage firms to adopt a 'high road' strategy. Rather, a high minimum wage needs to be embedded in a supportive institutional framework, and in the case of the UK, the necessary supportive institutional mechanisms that might enable this long-run dynamic process to come about are not present. Thus, as Grimshaw and Carroll (2006) found, a number of constraints were preventing the high-productivity approach from emerging in response to the NMW in their study of small firms in six low-paying sectors. One key factor was the highly competitive product market conditions, which meant firms were less able to finance increased training. They also found that a fear of poaching of trained employees prevented investment in staff. Given that high staff turnover (Adam-Smith et al., 2003: 41; Bullock et al., 2001: 17) and skill shortages (Arrowsmith et al., 2003: 445; Bullock et al. 2001: 17) affect many low-paid industries, it is not surprising that many employers are not prepared to take the risk of investing in training, or to adopt a value-added product market strategy that is dependent on skilled-staff for success. This is particularly so for SMEs who lack the in-house capacity for training and where having staff away at off-the-job training will be more disruptive to operational requirements than in larger firms. Thus, as a number of researchers who have assessed employers' responses to the UK NMW have concluded, the minimum wage is just one factor among many impacting on firms, and product and labour market conditions tend to be more significant influences on employers' behaviour (Adam-Smith et al., 2003; Grimshaw and Carroll, 2006; Ram et al., 2001). Indeed, rather than the 'high road' virtuous circle that Wilkinson et al describe, Grimshaw and Carroll (2006: 43) refer to a "vicious circle of constraints" in highly competitive sectors that prevent firms from responding in the predicted way.

Deakin and Wilkinson (2000: 26) do acknowledge that the wider institutional framework is important in creating the environment for the high-productivity model to emerge. They also note that much remains to be done on the types of regulatory and institutional frameworks that might create the complementarities to make interventions such as the minimum wage effective drivers of a high-productivity approach.

Of course, much has been written in the last decade or so about the notion of complementarities and the way in which institutional arrangements within different models of capitalism interact to facilitate different outcomes (e.g. Amable, 2003). Hall and Soskice (2001) distinguish between liberal market economies (LMEs) and coordinated market economies (CMEs). CMEs are known for their ability to deliver a range of public goods necessary for building a high-wage, high-productivity economy. One of these is as an effective system of training. The high cost of wages imposed through collective bargaining is certainly one element in forcing employers to compete on quality rather than simply on cost and to invest in training to ensure worker productivity matches labour costs. However, it is *only* one element. The institutional mechanisms for capital-labour and inter-firm coordination are also crucial in overcoming the disincentives to train evident in the above discussion. The issues of poaching trained employees by employers who do not train and thereby incur lower costs is one generally associated in the literature with LMEs. It is the classic 'prisoners' dilemma'. By coordinating their actions, employers can achieve a more effective outcome, but in LMEs there are few coordinating mechanisms.

Employers are encouraged to 'free-ride' rather than invest in training themselves, with the end result being a lack of skills in the economy, or what Finegold and Soskice (1988: 25) called a 'low-skills equilibrium'. This then drives these economies down the low-cost, low-wage, low-productivity route to competitiveness. In CMEs the wider institutional framework overcomes these limitations and provides the incentives to invest in training. Thus, there are strong links between the training systems and the wage bargaining systems. Union involvement also ensures that employers take a long-run approach. In addition, the inter-firm system of strong employer' associations places obligations on members to contribute financially to the training system, (Hall & Soskice, 2001; Streeck, 1992, 1997; Thelen, 2004)[1]. As Crouch et al. (1999) note, in LMEs the training problem is one of market failure. Hence, it is not one that can be solved by individual firms but requires institutional solutions. This is why firms in LMEs that attempt a 'high road' strategy often find it difficult to sustain in an environment where cost-minimisation strategies dominate (Konzelmann and Forrant, 2003; Locke and Kochan 1995: 374).

In this light, a high minimum wage is only one tool and in many ways quite a blunt tool for addressing low productivity, particularly where low pay is partly the result of poor profitability. If a particular industry is caught in a low-wage, low-skills equilibrium it will take more than NMW regulations to enable a critical mass of firms to move it in a 'high road' direction. While these may play an important role, some institutional supports for inter-firm or industry cooperation and coordination will be needed to facilitate this process.

This raises the dilemma between voluntarist and mandatory approaches to building institutional arrangements in LMEs. Recent contributions to the debate over institutional supports in the UK have promoted voluntarist options. For example, Gospel and Foreman (2006) point to the role of government in supporting and funding inter-firm training initiatives. Edwards et al. (2002) highlight the role that business associations could play in enabling the development of local networks, the promotion of best practice and the policing of the grey economy, as well as calling for an active government industrial policy embedded in local-level institutions. Much of this literature, however, acknowledges the significant barriers that a voluntarist approach faces, such as a reluctance by small firms to accept outside advice (Edwards et al, 2002: 17; Hoque and Bacon, 2006: 533), the poor reputation of various national training certification systems (Hoque et al., 2005: 138 & 148; Grimshaw and Carroll, 2006: 44), and the failure to date of various government initiatives in encouraging SMEs to engage in training (Hoque and Bacon, 2006: 547).

Those promoting voluntarist approaches may not necessarily oppose forms of compulsion, but rather recognise there is not much political will for mandatory solutions. However, doubts remain about how successful voluntarist approaches can be in addressing what are essentially issues of market failure. As the New Zealand and Irish cases will show, it will take more than just the promotion of best practice, supportive business associations or active industrial policy to overcome the 'vicious cycle' that Grimshaw and Carroll (2006) describe. As Streeck (1997) argues, sometimes the preferences of firms need to be constrained in order that they adopt alternative strategies; strategies that may be economically more beneficial[2].

The rest of this paper seeks to address some of these issues by examining how effective the institutional arrangements in Denmark, New Zealand and Ireland are in enabling firms in low-paid sectors to adopt 'high road' strategies. In particular, it focuses on the issue of enterprise-led training and the extent to which institutional structures facilitate investment by firms in training.

Denmark, New Zealand and Ireland

Denmark, New Zealand and Ireland make for an interesting comparison for two reasons. Firstly, between them they present a mix of institutional structures for addressing low-pay. Denmark actually has no minimum wage, but it has effective minimum rates of pay through the extensive coverage of collective agreements. The lowest pay rates in the agreements are estimated to be between 60 and 70 percent of average earnings[3]. Ireland and New Zealand have both increased their minimum wages significantly in recent years, and with minimum to average wage ratios of more than 50 percent, they are at the high end of the scale of OECD countries. Ireland also has a system of industry bargaining mechanisms in low-paid sectors. Secondly, their approaches to addressing productivity issues in low-paid sectors are quite different. Thus, the experiences of these three countries provide some useful insights into the sorts of institutional supports that might create the environment in which the high-productivity model can emerge.

The following sections are based on semi-structured interviews with 80 senior representatives of employers' organisations and trade unions, senior civil servants and industrial relations academics across the three countries. The first round of interviews was conducted during 2004-05 and follow-up interviews were conducted in each country during 2006-07. Interviews were conducted with social partners at both national and sectoral level. At sectoral level, the interviews were across a range of low-paid sectors. Because of time constraints involved with conducting research in different countries, an 'availability sample' method was used. That is, where contact was established easily, those interviews were conducted first, and other potential research participants were pursued until it was felt a broad enough range of perspectives had been uncovered in the time available. The most willing research participants at sectoral level were in retail and hospitality, and thus much of the evidence relates to these sectors. A smaller number of participants represented cleaning, nursing care and security.

Denmark

The 'Danish model' of industrial relations is of increasing interest to both policy makers and scholars of comparative institutions. For some, interest in Denmark relates to the 'flexicurity' approach, where liberal employment protection is balanced by generous social protection. This has contributed to low rates of unemployment and strong economic growth over the last decade, and hence the European Commission has been espousing the benefits of 'flexicurity' for some time. For others, such as the ILO, interest in Danish industrial relations also includes the benefits of social dialogue, income equality and 'decent work' for both social and economic outcomes (Egger and Sengenberger, 2003). The focus here is limited to the training system and the complementarities delivered by its interaction with a range of other institutional mechanisms. While Denmark is a high-wage, high-productivity economy, high wages are only one factor driving productivity growth. Rather, it is the range of supportive institutions that encourage firms to adopt a 'high road' competitive strategy.

Denmark has less labour market legislation than New Zealand or Ireland for protecting low-paid workers. Instead it has a highly institutionalised system that delivers good wages and working conditions through a patchwork of collective agreements that cover around 75 to 85 percent of the workforce. Areas of working life that in many countries would be covered by legislation, such as minimum wages, overtime rates or rules on working time, are all dealt with in collective agreements. This approach is effective at delivering equitable outcomes, with Denmark having comparatively few workers classified as 'low paid'[4] (Lucifora et al, 2005: 265). And as was noted earlier, the minimum pay rates in collective agreements are comparatively very high at between 60 and 70 percent of average hourly earnings.

It should be noted that while the overall picture for low-paid workers is positive in a comparative light, unions representing low-paid sectors face greater challenges than unions in other sectors. Union density rates in Denmark are around 75 percent but they are considerably lower in low-paid sectors. The union representing hospitality workers (formerly the RBF and now part of 3F) estimated density to be about 30-40 percent in that sector. They also reported undercutting from employers not party to collective agreements, exploitation of unskilled workers and difficulties getting employers to sign up to collective agreements. Nonetheless, the collective bargaining system is deeply embedded in the institutional framework, and despite some of the difficulties unions representing low-paid workers face, there has not been the decrease in incomes of the lowest paid experienced in many other countries.

The comparatively high wages for low-paid workers should, according to any neo-classical assessment, cause significant job losses. However, not only are unemployment levels low at 3.9 percent (OECD, 2007) but the high wages of low-paid workers are not viewed as problematic by the Danish social partners. The standard employer discourse elsewhere about high minimum wages causing unemployment simply does not feature in Denmark. In many ways this was surprising given that in May 2004, when the first round of interviews were conducted, the eight accession countries had just joined the EU. This would have increased the opportunities for business to relocate in pursuit of cheaper labour. Yet this was not seen as a major threat to Danish competitiveness. The reason for this is a shared understanding among the social partners that Denmark is a high-wage, high-productivity economy; it cannot and should not compete on a low-cost basis. As one union official pointed out, in low-paid manufacturing jobs such as textiles, Denmark cannot possibly compete with countries such as Poland. Not even a 10 percent cut in wages for Danish workers would make a difference to competitiveness. Thus, job losses in such sectors are accepted as an inevitable consequence of increasing globalisation. Pursuing a high-productivity strategy and training and retraining workers who might lose their jobs is seen as the way to deal with the issue, rather than getting drawn into low-wage competition.

There are a number of components to this high-productivity strategy, and high wages may be one factor encouraging Danish firms in low-paid sectors to seek higher productivity in order to be competitive. However, high wage costs on their own would not be enough to encourage them down the 'high road' competitive path. Indeed, in the area of training there are two very strong incentives for Danish firms *not* to invest in their workforce. The first is the high mobility of workers as a result of the liberal employment protections, with approximately one third of the workforce changing job each year (Aagaard et al., 2004: 13). The second factor is the large number of small and medium sized firms that dominate the Danish economy. As was noted earlier, small firms have less capacity for in-house training, and sending staff to off-the-job training causes greater disruption to the operation of a firm.

These disincentives have been overcome by adopting a coordinated approach to training, an approach that ensures that Denmark has some of the highest levels of continuous training in the OECD (Mailand, 2006: 11). Granted, the Government makes a significant contribution to the funding of continuous and vocational training system with the highest spend as a proportion of GNP in the OECD (Lundvall, 2002: 83), and this undoubtedly plays an important role in the success of the Danish training system. However, extensive coordination mechanisms also underpin the system. Here we consider just two – levies on employers and social dialogue – to illustrate the complementarities that are delivered by the interaction of various institutional arrangements.

Employers make financial contributions to a coordinated solution to the 'free riding' problem in two ways. The first is through a state-imposed levy on all firms, where some of the funds are used to finance adults on training courses (Lassen et al., 2006: 17). The second is through the system of collective bargaining. The coordinated wage bargaining system in Denmark with its comprehensive coverage has enabled unions to negotiate for training clauses in collective agreements, and it is one of the areas that they negotiate over in each bargaining round. Employers covered by these agreements pay a small levy into a sector fund, which the social partners use to develop and review the training courses and training needs of the sector. These funds cover a wide range of sectors, including low-paid sectors such as retail and hospitality. More recently, the major Danish unions have signalled their intentions to make continuous training a significant bargaining issue in coming rounds. While the government pays a significant part of the wages of employees away on training, the concern of unions is that not all firms compensate workers for the difference between government funding and lost wages, and that this is a disincentive for workers to undertake training, particularly so for unskilled and low-paid workers. Thus, in the 2007 bargaining round unions negotiated for more substantial employer contributions to a new training fund to cover this difference. In addition to the levies, most collective agreements also include training leave for employees of up to two weeks per year to undertake training of their choice. For unskilled workers there is a wide range of vocationally specific as well as general, school-level courses (literacy, maths, science, IT, etc.) that are State funded.

While the financial contributions of the State and employers are important, equally important is the consensus-based relationship between the social partners built on a culture of dialogue, cooperation and mutual trust. The social partners are involved at national, industry and local levels in the development and implementation of training policy, institutions and the courses themselves. This ensures that there is feedback between the local level on the one hand and industry and national bodies on the other. At the local level, employers and workers sit on the boards of local training institutions in order to develop and adapt training programmes to provide a match with the skills required in the local labour market (Egger and Sengenberger, 2003: 49). Hence, training courses are modernised and linked to the changing demands of industry. This also ensures that firms value the training certification systems, which in turn contributes to worker mobility and improves labour market flexibility. The involvement of the social partners also enables the training certification schemes to be embedded in the wage bargaining system, and thus for wages to be closely linked with training outcomes (Bosch and Charest, 2006: 302). This does not happen in all cases, partly as a result of the increasing decentralisation to workplace level of the wage component of bargaining. But where it does occur, it provides an additional incentive for workers to engage with the training schemes as it will lead to higher wages. Finally, the involvement of the social partners reinforces at enterprise level the value of training and education for economic success, and shop stewards play an important role in encouraging workers to avail of training opportunities.

Denmark is on the whole a success story in the area of training, but it too faces challenges. Like most countries, there is an imbalance in training towards those in higher and medium-skilled occupations. Additionally, within low-paid sectors there is some evidence of diverging employer training strategies. For example, a recent study of training in the retail sector (Martin and Knudsen, 2007) found a number of supermarket chains almost exclusively employ unskilled workers and offer them no training in basic transferable skills, whereas another supermarket chain operates a high profile training strategy and has been named among the best places to work in Denmark. An extensive review of the entire Danish adult and vocational training system, which was undertaken by a tripartite committee between 2004 and 2006, also highlighted this training imbalance and it has recommended a greater resource focus on unskilled workers (Jørgensen, 2006). This imbalance was one reason why the unions bargained for the new training fund in the latest bargaining round.

While there are some issues, comparative data suggests Denmark does well in terms of continuous training for unskilled workers (Ok and Tergeist, 2003: 12), and the recent review process illustrates the determination of the social partners to continually improve Denmark's skills base and ensure that certain sections of the workforce are not left behind.

Thus, the Danish case shows that high wages are not the only factor in driving an industry in a 'high road' direction. Rather, a range of institutions interact to enable effective solutions to be developed for complex industry issues, as well as for old solutions to be modernised in the face of changing economic and social conditions. While the discussion was limited to the issue of training, other issues might equally have been addressed, such as the coordination between the social partners and the tax department to tackle the increase in small firms operating in the grey economy and undercutting legitimate businesses.

New Zealand

New Zealand is well known for its radical deregulation of the labour market in 1991 under the Employment Contracts Act (ECA). Perhaps less well known is the policy shift since 1999, with the Labour-led coalition government moving away from the neo-liberal policies of the 1990s, and adopting what some have described as a 'social democratic model' to building a high-wage, high-productivity economy (Haworth et al., 2006: 49). However, much of it is built around voluntarist approaches, and despite efforts to build relationships between the social partners in the post-ECA environment, this section raises doubts about whether the appropriate institutional structures are in place to enable sectors caught in a low-wage, low-skills equilibrium to move in a 'high road' direction.

The introduction of the ECA represented a radical transformation of wage bargaining in New Zealand. Under the previous system bargaining was highly centralised, with a patchwork of nationally bargaining agreements (Awards) covering specified occupations or industries, with coverage rates of around 60 percent. Despite the centralised nature of the system, it lacked the cooperative features of the Danish approach. Indeed, it could be characterised as highly legalistic and adversarial (Deeks, et al., 1994: 64), which was one factor contributing to its demise. It was also primarily a mechanism for wage bargaining, and there was little in the way of integrating wages with training outcomes. Moreover, low levels of training at the time were considered a significant impediment to economic performance (ITF, 2003: 4). Thus, the centralised bargaining system lacked the sorts of complementarities evident in the Danish model.

With the introduction of the ECA, union bargaining power was significantly diminished and bargaining quickly became focused at workplace level and on an individualised basis, with only a quarter of the workforce covered by collective agreements by the mid-1990s. Union density dropped from 43 percent in 1991 to 21 percent by 1999 (Blackwood et al., 2006: 2), with the greatest decreases occurring within those sectors where workers have the least bargaining power. For example, the retail, restaurant and hotel sectors experienced a combined drop in membership of 81 percent between 1991 and 1999 (Crawford et al., 2000: 6). With the rise in individual contracts, combined with large numbers of small and geographically spread workplaces and limited union resources, union organising became extremely problematic in the new environment. Research also showed significant levels of anti-union employer behaviour in sectors such as retail (McLaughlin and Rasmussen, 1998).

With the removal of the Award system, there were no legal minimums for many employment conditions such as overtime or weekend rates, and these were quickly reduced or completely removed in many cases. Thus, the minimum wage became the most significant institutional mechanism in terms of protecting the pay of many low-paid workers. The fact it was inadequate at doing so was evidenced by various studies conducted during this period of service workers (Harbridge and Street, 1995) and retail employees (Conway, 1999; McLaughlin, 2000), which found decreases in take-home pay, minimal wage bargaining occurring, and high levels of dissatisfaction with income levels. Statistics NZ data also showed that average wages in low-paid sectors such as hospitality fell both in real terms and in relation to the rest of the labour market during the 1990s[5].

The reforms introduced by the Government since 1999 are aimed at addressing these issues of labour market inequality, but they are also aimed at improving economic performance. One area of concern is New Zealand's disappointing productivity growth, and hence, building a high-wage, high-skill, high-productivity economy is high on the agenda. The Employment Relations Act 2000 (and its 2004 Amendments) is part of this wider strategic plan. The Act has improved rights for unions in terms of achieving collective agreements and places greater emphasis on good faith behaviour, both in collective and individual bargaining. However, the impact of the legislation on bargaining structures has thus far been minimal. Individual bargaining remains the norm, and where collective bargaining occurs, it is predominantly enterprise-based rather than multi-employer. In addition, union density levels in low-paid sectors remain particularly low. For example, the combined density rate in retail, restaurants and hotels is below 4 percent (Blackwood et al., 2006: 6). Anti-union employer attitudes were also very evident in the interviews with industry associations. Thus, one union official described the ERA as "the ECA with access rights for unions".

Consequently, low-paid workers, particularly those in small workplaces, remain dependent on employment legislation to improve their position. For this reason, there have been a number of improvements to individual employment rights since 1999, including the introduction of penal rates of pay for working on public holidays, a fourth week of annual leave and significant increases in the minimum wage. The minimum wage has been increased incrementally from $6.50 in 1999, reaching $11.25 in 2007, an increase of 73 percent.

This significant increase in the minimum wage presents fertile ground for testing the thesis that a minimum wage can impact on productivity through encouraging firms to alter both their employment and product market strategies. In addition, unemployment reached a 20-year low of 3.7 percent in 2005 and has remained around this level since. This should act as an added incentive for firms to invest in training and retain existing staff by adopting good employment practices. However, it is because of such conditions that employers in low-paid sectors are unable to make the transition to a high-productivity strategy. Increasing wage costs in competitive product markets, combined with high staff turnover, make investment in a 'high road' strategy problematic.

In relation to product market conditions, what emerged in the interviews was that many low-paying sectors are not particularly profitable for SMEs. For example, the average return on investment in bars and pubs cited by the relevant industry association was three percent. With interest rates in New Zealand at the time of the interviews around seven percent, this is a particularly poor return. In the restaurant industry there are similar concerns about poor profitability and business failure.

The primary reason offered for low profitability was over-supply, which was keeping prices down. While the consumer is benefiting from a wide range of choice and competitively priced products, "it is the operators who are getting most of the squeeze", said one association official. Clearly there is a market failure occurring with businesses continuing to enter the industry despite poor returns and business failures, while many of those who survive scrape by on a low-cost strategy.

The solution advocated by employers' associations in these sectors is one of encouraging their members to adopt a 'value added' approach. That is, to compete on the basis of quality, service and productivity, rather than on low-cost. Given the staff-intensive nature of these businesses, the ability to invest in technology or other areas is limited, and therefore the key investment is in human capital. Hence, they are advocating greater investment in training as the route to higher productivity. As one official said, "we're certainly encouraging our members to invest in greater staff training…… they will be better paying three staff that are trained more money than having four untrained staff. The net profitability of that scenario will be much higher". Others interviewed made similar comments about trained staff working smarter or staff who are trained and treated well selling more on behalf of the business, and this is a theme repeated in various industry workforce strategies, such as the Tourism and Hospitality Workforce Strategy (TIANZ, 2006).

While employers' associations point to the work they are doing to encourage greater levels of training, at the same time they recognise that there is a skills crisis in these industries. Again, various industry publications acknowledge this state of affairs. As another industry association CEO said in relation to the lack of training:

> The industry hasn't been good at training… and has to take some responsibility because they haven't been driving [it]… And we have no solution to the problem, which I suppose is an indictment on us… But we need to just encourage our members to train.

However, in industries where profitability is so low, it is unrealistic to think that struggling employers will voluntarily invest in training. Adding to this situation is the tight labour market. With low wages, these industries are struggling to recruit and retain staff, and high staff turnover means that the employer making the investment is unlikely to benefit directly. The abundance of cheap labour during the 1990s made investing in staff an unnecessary option, but the current shortage of labour is making investing in staff a risky option. As one restaurant industry spokesperson said:

> The average life of a restaurant is just 19 months, so that, combined with high staff turnover in the industry, has implications for training. Should I train this person who isn't going to stay when it will cost me and things are tight. So that's an economic decision they make and that's not good for the industry.

Furthermore, a survey conducted by the Retail ITO (2006), of employees in the sector who had undertaken certified industry training, showed that while 60 percent reported the training had increased their productivity and motivation, only 29 percent reported that it had led to an increase in pay. Similar figures were quoted to the author for research conducted by the hospitality ITO. Hence, there is no strong incentive for employees to stay in these industries following training or to undertake the training in the first place. In the context of severe skill shortages and high turnover it seems remarkable that, having made the investment in training, employers are not protecting that investment by paying higher wages. But as the restaurant industry spokesperson pointed out about the restaurant industry, "too many [firms] treat labour as a cost to be minimised rather than as an asset".

This attitude is reflected in aggregate data, which shows that wage increases in these sectors continue to fall behind the rest of the economy despite the skill shortages. Data for 2005, the latest available year, shows that the smallest average increases in sectoral wages were in hospitality and retail, the two lowest paying sectors in the economy, with increases below inflation[6]. Moreover, these are two industries where the increase in the minimum wage would have had a significant impact, suggesting that market forces are very slow in these sectors. The fact that union influence in these sectors is minimal is also not insignificant.

Thus, some of these industries are stuck in a low-wage, low-skills and low-profitability equilibrium, and a 'high road' approach on an industry-wide basis will not emerge as the result of encouraging individual firms to invest in training or increase wages. Ultimately, it is a problem of market failure and will require institutional solutions.

The response of the Government has been to build a range of voluntarist institutions for developing coordination. In the area of industry training, a review of current policy was conducted in 2001, with the aim of significantly increasing participation levels and improving the quality and responsiveness of training courses. This continued a process begun in the 1990s, where industry training standards were developed by ITOs and linked to the National Qualification Framework. This process has resulted in a training system closely aligned with the needs of industry. Thus, insufficient levels of training do not reflect employer dissatisfaction with the quality of training supplied, but are more to do with the demand for training. To increase the take-up of training by employers, the Government has almost doubled available funding since 1999. Employers are only required to make a partial contribution to any training programmes they utilise. As a result, the number of participants in training per year also has increased significantly in this period. However, despite these successes, the issue of skill shortages remains a major issue. As one ITO reported, much of their work is with larger organisations. Convincing smaller firms of the benefits of training, even with the increased subsidies available, remains problematic.

The Government has also brought together various industries within its 'Sector Engagement Strategy', a strategy aimed at enabling industries to develop industry solutions for industry issues. Sector groups that have been formed so far include horticulture and viticulture, tourism, food and beverage (manufacture), roading and construction, wood processing, and fishing. A number of these sectors have a history of low pay and poor productivity. Horticulture and fishing were highlighted by one government official as particularly problematic, with high numbers of illegal workers, passports being held by employers, below minimum wage pay-levels and crowded accommodation. The Government's approach in these sectors is, he said:

> …both a stick and carrot approach – the stick of regulation but also the carrot of support for firms to operate in a different manner….. New Zealand workers are going elsewhere, the industry pricing is under pressure and the working conditions have been deteriorating over a period of time. The way out is to look at the sustainability of the industry – how can it compete on a different basis? This requires addressing industrial relations issues, training, investment, exit strategies for unprofitable business, venture capital, clustering, networks, regional development and so on.

Thus, it involves looking at the economic drivers of both low pay and low profitability, which, as this discussion suggests, are inextricably linked in highly competitive, low-paid sectors dominated by SMEs. It also involves addressing a range of other related industry issues. This approach sheds light on the question of whether higher minimum wages would act as a 'shock effect' in low-paid sectors without a wider supportive institutional framework. The 'Sector Engagement Strategy' is based on the assumption that industry issues are complex and interrelated, and enforcement of standards needs to be balanced by institutional supports to assist employers make the transition to a 'high road' strategy. Government officials are cautiously optimistic about the potential for success of the Sector Engagement Strategy. As one official noted "there appears to be positive signs so far from the engagement of these sectors, beginning to actually face up to the issues".

Ultimately, however, this approach is a voluntarist one and it does not require firms to adopt strategies that they find unpalatable, but which may deliver more beneficial outcomes. One solution proposed by the NZCTU is to link the training system with wage bargaining, preferably through some form of industry-level bargaining mechanism. They acknowledge that this would need to be quite different to the pre-1991 Award system; "more sophisticated… connected with enterprise and industry". They also accept that it is unlikely to be on the agenda for some time as a result of uncompromising employer opposition. While relationships between unions and employers at the national level have improved over recent years, a significant ideological divide exists over industrial relations policy. In this context, statutory supported industry bargaining is certainly not one of the institutional supports on the Government's agenda. However, it seems unlikely that the current institutional framework in New Zealand will be effective in pushing some of these low-paid industries in a 'high road' direction.

Ireland

Like Denmark and New Zealand, there has also been significant interest in the Irish story. In Ireland's case it is because of the phenomenal economic growth since the mid-1990s. While much of this success is due to investment by US MNCs, there are also a number of other important factors, one of which is the social partnership process (Hardiman, 2003). From the perspective of low pay and productivity, social partnership provides the Irish with opportunities to develop coordinated solutions to these issues. However, as this section will show, despite a comparatively high minimum wage and a booming economy, many of their low-paid sectors are caught in a low-wage, low-skills equilibrium facing similar issues to New Zealand.

Ireland has a range of institutional mechanisms that play a role in addressing low pay. A minimum wage was first introduced in 2000. While there is no set mechanism for reviewing it, the rate has been increased on a number of occasions. In 2002 it was €6.35 an hour and by July 2007 it had risen to €8.65, an increase of 36 percent over five years. It is now over 50 percent of average earnings, which places it at the upper end of the OECD scale of minimum-to-average wage ratios. In addition to the minimum wage, Ireland has long had a system of Joint Labour Committees (JLCs) similar to the Wages Councils that were abolished in the UK in 1993. The JLCs are industry and sub-industry level agreements that set minimum terms and conditions of employment for various categories of workers, with high rates of pay for length of service and responsibility. Some include other conditions of employment not covered by law, such as overtime rates and sick leave. They are negotiated between unions and employers from the sector with an independent chairperson, and the Labour Relations Commission estimate they cover around 200,000 workers. Wage rates begin marginally above the minimum wage, and given their extensive coverage over low-paid sectors, this may explain why Ireland has comparatively few workers on the minimum wage, but a high number classified as 'low paid'. 23 percent of the workforce falls into this low-paid category (Nolan, 2007: 19). Thus, there is significant wage compression just above the minimum wage.

There is no doubt that social partnership has played a role in both ensuring the continuation of the JLC system and raising the minimum wage, in that it has enabled unions and community groups to keep the issue of low pay and income inequality on the political agenda. In addition, many of the partnership agreements have included special pay rises for low-paid workers. Thus, a number of union officials noted that social partnership had enabled these workers to gain wage increases they would not have obtained in a decentralised environment. Moreover, the argument is made that it has prevented the decreases in real income at the lower end of the distribution that have been experienced in more neo-liberal economies (Hardiman, 2000: 301).

More recently, however, unions representing the low paid have become disillusioned with social partnership, arguing that it is increasingly difficult to gain political traction around the issue of low pay. MANDATE, which represents hospitality, retail and office workers and is the third largest union in Ireland, did not sign up to the latest partnership agreement. They also paint a fairly depressing picture of the state of industrial relations in unionised workplaces, with employers constantly trying to reduce entitlements such as sick pay, overtime rates and allowances in return for pay rises. Union density across the labour market is around 35 percent, but it is significantly lower in low-paid industries like retail (18 percent), hotels and restaurants (12 percent) and agriculture, forestry and fishing (14 percent) (Geary, 2006: 19). In such sectors, membership is likely to be concentrated in a small number of large workplaces, with one union representing low-paid workers estimating that 60 percent of their members were in closed shop agreements. Thus, despite the influence of unions in the social partnership process at national level, the minimum wage and the JLCs continue to be the primary wage-protection mechanisms for the large majority of low-paid workers.

Given this context of adversarial industrial relations, it is not surprising that there were similar issues to the New Zealand case in relation to productivity in low-paid sectors. With low unemployment and higher wages elsewhere, low-paid sectors have been facing severe recruitment and retention problems for some time. Poor wages and employment conditions are reflected in low-job satisfaction, with one survey of employees' across the economy showing the hotel and restaurant sector to have the lowest levels of job satisfaction by a significant margin (O'Connell et al., 2004: 28). As a result, Irish workers are choosing to work in industries with better wages and working conditions. Sectors such as agriculture, tourism and hospitality are increasingly reliant on immigrant workers, who now make up 10 percent of the Irish workforce (Roche, 2007a). A number of union officials suggested that this has provided employers with a steady stream of relatively cheap and compliant labour, which has kept wages down.

Various strategy documents from low-paid industries identify staff retention as a serious problem, and yet these industry associations continue to oppose increases in the minimum wage (e.g. IHF, 2006) arguing that it will affect competitiveness. Some of these industries can point to supporting evidence. For example, in the tourism and hospitality sectors a number of visitor and tour operator surveys show that Ireland is no longer seen as the cheap tourist destination it once was with high levels of dissatisfaction with value for money (ITIC, 2006a: 39-40). Employers associations also cite poor profits among sectors like restaurants and bars. Thus, as in the New Zealand case, competitive pressures are preventing wage increases being accommodated through price rises among smaller firms. Instead, it would appear they are being absorbed through lower profits.

The solution proposed by industry associations is to encourage employers to raise productivity by investing in training and innovative product development. However, like the New Zealand case, cost-minimisation strategies dominate management thinking in such sectors, with low levels of investment in training by employers in these industries (O'Connell et al., 2004: 77) and comparatively poor productivity in private sector services (NCC, 2005: 35). A recent report by the Irish Tourist Industry Confederation (ITIC, 2006b: 28) pointed to "real difficulties" the industry faced in raising investment in training, including high staff turnover and exit rates from the industry, disruptions to business while employees are on training, the financial costs involved for SMEs, and dissatisfaction with current training programmes. Thus, low-paid industries in Ireland are also caught in a low-wage, low-skills, low-productivity equilibrium.

Union officials argued that higher wages would coerce employers down this route, yet neither the comparatively high minimum wage nor the JLC wages are driving the majority of firms in this direction. Clearly higher wages are not enough on their own to induce the 'shock effect'. They are important but they are only one component of a wider supportive institutional framework that enables employers to address employment and product market pressures simultaneously.

While Ireland has the social partnership structures at national level, the broader institutional context makes the adoption of a 'high road' strategy on an industry-wide basis problematic. Granted, the social partnership process is underpinned by a shared vision of building a high-wage, high-productivity sustainable economy. Additionally, there is a shared acknowledgement that much of Ireland's productivity growth is driven by US multinationals, with a significant divide in productivity levels between foreign and indigenous firms. This is why much of the latest social partnership agreement, *Towards 2016*, is devoted to building a high-skilled workforce, supporting lifelong learning, encouraging innovation, developing partnership at work and improving employee involvement. Various other national-level strategy documents repeat the same themes.

However, while there is agreement about the strategic aims, there is little agreement about the institutional structures that might be needed to bring them about. Part of this relates to the policy influence of MNCs, which have made it clear they wish to operate in a non-union environment. In addition, industrial relations strategies and practices have become increasingly adversarial (Roche, 2007a: 63-65). Surveys show that anti-union employer attitudes are widespread in both foreign and indigenous companies (D'Art and Turner, 2005), and this is despite the positive role that unions have played at national level in improving Ireland's economic performance. Thus, a number of commentators talk of 'truncated partnership' (Geary and Roche, 2002: 13) with social partnership below the national level remaining somewhat experimental and limited, and almost non-existent at workplace level.

As a result institutional solutions, such as union recognition legislation or linking the training system with the wage bargaining system, are off the political agenda. Without the coordination mechanisms evident in the Danish case, the strategy relies on 'encouraging' individual firms to adopt 'high road' strategies. To this end, a number of state organisations and national-level tripartite groups have a mandate to encourage investment in training, innovation, workplace partnership and networking, while providing funds for experimental initiatives.

One initiative in the area of training is the enterprise-led Skillnets programme where grants are provided to support firms that create a network to coordinate their training needs. Skillnets began in 1999 and since that time it has funded over 120 networks involving more than 6,000 enterprises and 35,000 employees. The Government has recently more than doubled the funding available. In addition, the proportion of total training costs that grants will cover has recently been increased, with up to 90 percent of training costs covered for networks that meet key criteria, such as training of less-skilled workers or those working in declining sectors. In terms of meeting the needs of SMEs in low-paid sectors, Skillnets appears on the surface at least to be successful. The large majority of participating firms are SMEs (82 percent) and the networks come from a wide range of industries, including low-paid sectors. Indeed, one of the largest and most successful networks is in the retail sector. Employers associations and government officials both described Skillnets as a significant success story in addressing Ireland's skills shortage.

However, at this stage any evaluation should be a cautious one. Firstly, as outlined earlier, the general picture on training in low-paid sectors and among low-skilled workers suggests there is a long way to go. Secondly, high staff turnover and financial costs still remain disincentives for many companies to invest in training, as even an official of Skillnets noted. Despite the high grants available, there are still costs involved for firms as grants cannot be used to cover replacements for staff away on training. Thirdly, while accreditation from the National Framework of Qualifications for training programmes is encouraged, certification is not a requirement of receiving a grant. However, without certification the incentives for employees to become involved (higher wages and improved job advancement opportunities) are weaker. Fourthly, while Skillnets itself is a social partnership initiative, union involvement in the networks is not a requirement and it is no surprise therefore that unions are not included in many of the networks. The successful retail network epitomises the paradoxical Irish situation. The network is driven by IBEC, the peak employers' association, which has signed up to the various partnership agreements that espouse the benefits of union involvement. However, they have set up and developed the retail training network without the involvement of unions in the sector. One union official suggested that this was because it would have been unpalatable to their own membership. The concern over a lack of union participation is that various studies in Ireland find that training is significantly higher in firms with union involvement (O'Connell et al., 2004: 11; Roche, 2007b: 197). This is not surprising in light of the Danish case, where union participation ensures employers adopt a long-term approach to training and where representatives at workplace level encourage workers to avail of training opportunities. Finally, the Skillnets approach seems to lack a sense of coherence. Networks vary significantly in terms of objectives and size, they may duplicate the activities of other networks, and networks are unlikely to form in areas where training shortfalls relate to more systemic problems. This last point suggests that an industry approach may be more efficient.

Of course, the irony is that institutional configurations already exist at industry level in low-paid sectors in the form of the JLCs, and these could have some potential in terms of linking wage bargaining with training outcomes through the development of industry training certification systems. Given the adversarial nature of industrial relations in these sectors, and the anti-union employer attitudes discussed earlier, this would undoubtedly be problematic. JLCs are not underpinned by the social partnership ethos, but remain traditional, adversarial bargaining mechanisms. However, need it stay this way? With funding for various partnership initiatives and experiments already a key part of the current strategy, perhaps one JLC could be used to pilot an industry partnership initiative. A large enough financial carrot might encourage industry associations and unions in the sector to begin working together in a more positive way to address industry issues, such as low productivity and inadequate levels of training, along the lines of the New Zealand Sector Engagement Strategy but with wage bargaining as a part of the mix.

Conclusion

This analysis of the training issues that low-paid sectors face in these three countries in trying to move in a 'high road' direction, adds further evidence to recent contributions to the literature that a high minimum wage on its own will not provide much of a 'shock effect'. Clearly, there are a range of factors that impact on firms' decisions about adopting high-productivity employment and product market strategies. Denmark, New Zealand and Ireland all have comparatively high minimum wages but their effectiveness at addressing productivity issues in low-paid sectors differs markedly. Thus, high wages may play a role, but the wider institutional framework is fundamental to creating the environment that will enable such transformative change to occur.

In the Danish case, high levels of Government funding for training are important, but this too is only one element in a range of policy and institutional supports. The coordination mechanisms between employers and unions at various levels of the economy play a pivotal role in ensuring that the funding is used effectively through an on-going process of developing, implementing and reviewing training programmes. The connection with the wage bargaining system means that training outcomes and wages can be linked. It has also enabled unions to negotiate for employer contributions to sectoral training funds and for training leave entitlements for workers, and thus unions play a significant role in ensuring firms contribute financially to a coordinated solution. Unions also have an important responsibility at workplace level in encouraging workers to avail of training opportunities. Underpinning the various mechanisms is a consensus-based relationship between the social partners at all levels of the economy. Thus, the various coordination mechanisms ensure that the adoption of a high-productivity strategy in low-paid sectors is reasonably widespread. Where issues arise, such as the imbalance in training away from unskilled workers, these mechanisms ensure they can be effectively addressed.

In contrast, in the New Zealand and Irish cases there is evidence of inadequate levels of training in low-paid sectors, particularly among SMEs. In the context of severe skills shortages, industry associations are encouraging their members to raise productivity through investment in training and to raise wages to improve recruitment and retention of staff. However, poor profitability combined with high staff turnover makes this a difficult strategy for firms to pursue. Hence, many low-paid sectors are caught in a low-wage, low-skills and low-productivity equilibrium. In both cases, voluntarist responses are being adopted, such as education campaigns by business associations about the benefits of training or the Skillnets training networks in Ireland. However, while these approaches may be important they are not enough as they do not fully overcome the ‘prisoners’ dilemma’ issues that firms face. As a result, their impact is limited.

This of course raises the issue of voluntarist policy options versus those involving some degree of compulsion, and the analysis in this paper strongly suggests that completely voluntarist approaches are not working. Levies on employers to fund industry training are perhaps the most straight-forward of mandatory options, but these need to be part of a wider set of supportive mechanisms in order to deliver the sorts of complementarities present in the Danish case. Employers in Ireland pay a training levy, but insufficient levels of training still remain a serious concern. The industrial training boards (ITBs) in the UK also involved levies on employers and were set up in the 1960s to address the ‘poaching’ problem. They remained in place until the 1980s, but as Pemberton (2001) argues the ITB system failed because of fragmented institutional arrangements. In addition, he notes that the tripartism underpinning it was superficial, and hence there was little consensus developed that might have overcome some of the institutional shortcomings. Clearly, individual issues like training cannot be addressed in isolation. Rather, solutions need to take account of a range of factors impacting on firms’ decisions, and they need to be embedded in a supportive institutional framework.

The approach being suggested here then is not a compulsion versus voluntarist dichotomy. Voluntarist approaches have an important role to play. There needs to be some element of compulsion, but the institutional arrangements also need to facilitate social partnership and consensus-building. In the Danish model, strong unions provide the element of compulsion but the consensus-based relationship is also fundamental to its success. The Sector Engagement Strategy in New Zealand is a step in the right direction, and it illustrates the benefits of creating social partnership at sectoral level to address a range of complex and interrelated issues. Central government involvement also means that the potential exists for policy to be designed to support rather than hinder solutions to these issues. However, this approach is wholly voluntarist and does not require firms to adopt strategies that they find unpalatable, but which may deliver more beneficial outcomes. For example, sectoral-level wage bargaining could play an important coordination role in linking training outcomes to wages and enabling unions to negotiate for training entitlements for workers, but New Zealand employers will not freely choose this path.

Some of the issues raised in the New Zealand and Irish cases illustrate the difficulties involved in developing institutional solutions in LMEs where employers are resistant to such solutions, particularly when they involve unions.

The institutional complementarities evident in Denmark are the result of historical, cultural, social and political processes, and many aspects of the Danish approach will not be easily replicated elsewhere. Indeed, the question could be asked 'are the complementarities characteristic of CMEs so deeply rooted that any attempt by LMEs to replicate them is futile?' The conclusion reached here is one of qualified optimism. It will undoubtedly be problematic though not impossible. Firstly, the political will needs to exist for appropriate institutional mechanisms to be introduced, such as industry bargaining mechanisms linked to national training systems. Employer associations will not be supportive but both Ireland and New Zealand provide compelling evidence that the current approach is not working. Secondly, social partnership needs to be developed and nurtured at the institutional level. As the Irish and New Zealand experience shows, this is not impossible in contexts that might be considered inhospitable to such arrangements, though in both cases these are much stronger at national level than at sectoral level.

The JLCs in Ireland provide a unique opportunity for the Irish to experiment with building coordination mechanisms underpinned by social partnership in low-paid sectors. The sectoral bargaining mechanisms already exist, so the potential is there to extend their scope so that they become forums for developing joint solutions to industry issues. Given the adversarial state of industrial relations in these sectors this will not be easy, but a significant enough financial incentive to one or two JLCs may encourage the actors to engage in more meaningful dialogue and begin developing industry-based solutions to the skills and productivity issues they face.

The three countries analysed are all small economies, which makes dialogue and consensus-building somewhat easier. There is no doubt that similar policy issues exist in many larger LMEs, such as the UK. The question is whether such sectoral-level mechanisms could be established in larger economies. Could the UK Wages Councils, for example, have been developed beyond adversarial, industry bargaining mechanisms? The discussion here suggests that perhaps a case exists for their re-introduction, albeit in a modernised form. The question of whether partnership could be developed within such institutional mechanisms is best left to scholars of the UK context. What is clear, however, is that voluntarist approaches to addressing the product and labour market issues that low-paid sectors face will not be successful. These are issues of market failure, and the analysis presented here shows that institutional solutions are needed to enable industries caught in a low-wage, low-skills, low-productivity equilibrium to begin moving down the 'high road' path.

Notes

[1] This distinction in the institutional literature between the skill sets in LMEs and CMEs is now recognised as rather simplistic, and has been replaced with a more nuanced view which recognises the different mix of skills that each type of economy delivers. Nonetheless, it is generally recognised that LMEs continue to be poor at providing skills at the lower end of the labour market (Thelen, 2004: 5, 9-10).

[2] Streeck (1997) refers to this as 'beneficial constraint'. That is, society can benefit from placing constraints on the strategic options available to the actors.

[3] It is not possible to calculate a ratio of minimum pay rates in the collective agreements to average wages as Statistics Denmark do not calculate average earnings for the whole economy. However, sectoral data (Kudsk-Iversen and Jørgensen, 2005: 3) suggests it will be well over 60 percent, and a 1997 estimate was 70 percent of average wages (see Rubery, 2001: 158).

[4] A commonly used definition of 'low-pay' is less than two-thirds of median hourly earnings.

[5] Data provided directly by Statistics NZ, calculations by the author.

[6] Data provided directly by Statistics NZ.

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