

The Jobs Letter

No. 123

12 May 2000

Essential Information on an Essential Issue

KEY

STATISTICS THAT MATTER

US RECORD LOW JOBLESS

INDUSTRY NZ

RIMU AND JOBS

DOT.COM CRASH

DIARY

22 April 2000

Earth Day. Thirtieth anniversary of the world-wide environmental action day.

23 April 2000

A steering group has been set up to investigate options for an overhaul of Winz. The group is made up of officials from Treasury and the PM's department, and their investigation is further to the Ministerial Review into the Department of Work and Income New Zealand being done by former State Services Commissioner Don Hunn. Social Services Minister Steve Maharey says the investigations are going on concurrently so that there will be no delay in acting on the Hunn report soon after it is presented.

To address the shortage of information technology workers in the US, a congressional committee votes to suspend visa limits for foreign information technology workers.

24 April 2000

Economic Development Minister Jim Anderton says the government is working to eliminate the obstacles to exporting possum meat to China. NZ companies unsuccessfully tried to break into the Chinese market in the 1980's, and Bruce Mulligan, director of Exotic Game Meats, says that this push may now succeed because the industry has never before had the support from such a high level of government.

• The official **unemployment rate has risen** to 6.4% for the March 2000 quarter, up from 6.3% in December. The number of people employed has fallen 0.3%. These figures have surprised the financial markets which were expecting the unemployment rate to drop to 6.1%, and employment to rise by 0.5%. They represent a **slow-down of the strong employment growth** seen in the second half of last year. We include our regular *Statistics That Matter* feature in this issue of *The Jobs Letter*. Some highlights:

— Most of the drop in employment has been in the **loss of part-time jobs**, where the December quarter's rise of 10,000 jobs has been reversed.

— **Full-time jobs**, however, **continued to rise** by 5,000 jobs or 0.4%. This is the fifth consecutive increase in the level of full-time employment, bringing the level to an all-time high of 1,366,000 full-time jobs.

— Over the last year, **the overall level of employment has increased** by 1.4% or 24,000 jobs, with male employment increasing by 16,000 and female employment by 8,000.

— The working-age population was 2,889,600 at the end of March. This was up 6,100 from December and up 18,100 from a year ago. The number of people "outside the labour force" at the end of March was 1,002,000, up 5,000 from December, and up 9,000 from a year ago.

— The two youngest age groups in the statistics recorded the highest unemployment rates in the last quarter. The **15-19 year age group now has an unemployment rate of 18.3%**, and the 20-24 year of group has an unemployment rate of 11.9%.

— The 15-19 year age group, however, has had a **significant movement into employment** (up by 7,100) in the last year. Its continuing high unemployment rate is explained by an increase in the labour force participation rate of these young people to 54.7%, a rise of 3.2%. In the last year the numbers of young people classified as "not in the labour force" is down by 8,300.

— The **highest regional unemployment rate** at the end of March was in **Taranaki** (9.8%) followed by Northland (9.0%). The lowest unemployment rate was recorded in the West Coast/Tasman/Nelson/Marlborough region (4.9%) followed by Canterbury (5.9%)

— Over the last year, the unemployment rates for each of the ethnic groups has decreased, with the most **significant decrease** being in the **Maori** group, which has fallen from 19% to 14.6%. In the last year, the numbers of Maori in the working age population has increased by 20,600, while the numbers of Maori in employment has increased by 25,500.

• At the end of April, unemployment in the United States fell to 3.9% ... the first time in thirty years it has fallen below 4%. Joblessness in the US now also stands at its **lowest peace-time level since 1957**.

Sung Won Sohn, chief economist of Wells Fargo & Co describes the rate falling below 4% as passing "a real psychological threshold". US economists are now worried that the job growth is pushing the outer limits of the pool of available workers, and this is also sparking fears that Wall Street will now have to contend

The Jobs Letter : ESSENTIAL INFORMATION and MEDIA WATCH on JOBS

EMPLOYMENT, UNEMPLOYMENT, the FUTURE of WORK, and related EDUCATION and ECONOMIC issues

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The Jobs Letter

DIARY

National's Belinda Vernon says that the Hunn report is a waste of taxpayer money. She argues that Steve Maharey's recent comments indicate that he has already made up his mind on what he is going to do with Winz.

25 April 2000

Forestry companies in the Far North and the East Cape are finding it difficult to recruit workers. The timber companies, who laid-off staff three years ago in the wake of the Asian financial crisis, say that despite the high levels of unemployment, skilled and dependable forestry workers are in short supply. The companies speculate that the lack of workers is related to the lucrative cannabis industry which pulls people away from doing legal work.

Tertiary Education Minister Steve Maharey orders an investigation into the student loan processing problems. The investigation will consult with students' associations, tertiary institutions and government agencies.

26 April 2000

New jobs are predicted as a result of infrastructure development in East Tamaki. Manukau City Council economic forecasters say 3,900 jobs will be created over the next six years as the result of improved roading access and the setting up of an industrial park. Further industrial land development has been approved for the Waiouru Peninsula in Manukau with even larger employment gains expected.

with higher wages and higher interest rates. Sohn: "The amazing story of this recovery is that we've been able to find bodies to support economic growth so far. Workers have basically been coming out of the woodwork. We're using not just the traditional labour supply, but also prison labour, more mothers, more teenagers and the disabled. The economy has been trying to find as many bodies as we can, across the board, but its becoming more difficult..."

- The strong US economy has succeeded in spreading the benefits of the robust job market to more American workers, with **jobless Latino and African Americans at their lowest levels on record**. The figures: The official unemployment rate for Latinos is now down to 5.4%, and for African Americans it is down to 7.2% — the lowest level in the 28 years that the government has been keeping these statistics.
- Employers and employment agencies around the US continue to **complain of labour shortages**, and, in response, are changing their hiring strategies. Many employers are offering **signing bonuses and stock options** to attract new workers. Example: high-tech workers and mid-level bosses with good management skills are in great demand ... and a \$10,000 signing bonus from a prospective employer is not out of the question.
- Legislation establishing **Industry NZ (INZ)** as a crown entity was introduced to Parliament last week, fleshing out a few further details of Jim Anderton's "jobs machine". The legislation sets up INZ as the implementation arm of the government's economic development initiatives. The government has already announced that this new agency will be spending \$100m a year in the next three years ... but we won't know how or in what form this money will be spent until announcements are made in the next Budget.
- Jim Anderton says he won't be involved in the day-to-day running of INZ. But the legislation ensures that the agency **will have to obey written directions** from the Minister of Economic Development. These directions will have to be gazetted and tabled in Parliament.

A Board for INZ of between five and nine people will be appointed by the Minister, and this Board will then appoint the chief executive. *The Independent* reports that the front runner for the job is **Rick Hart** who is currently acting as establishment manager. Hart has returned to NZ after doing a similar job in Victoria, Australia.

- **Pete Hodgson**, Minister for Small Business, says that the Ministry of Economic Development has been moving as quickly as possible to build up new resources for economic development. Hodgson: "We've applied CPR to the few remaining officials with expertise in that area ... Contrary to what became the conventional wisdom in this country, it is possible for government to help businesses grow. Most other countries do it as a matter of routine and this country became something of a Western world freak when it abandoned all efforts."

Hodgson is cautiously pointing out that INZ will not be getting into heavy and expensive intervention in the economy: "We're not going to spend huge amounts of money like Ireland to lure high-tech multi-nationals here. We're not going to put up a billion dollars in venture capital as Singapore has done. We're definitely not going back to the lunacy of Think Big and having something like the DFC speculating with public money on the property market. There is a middle way

(continued on page five)

STATISTICS THAT MATTER

ONE IN SIXTEEN PEOPLE OFFICIALLY UNEMPLOYED IN NZ

OFFICIAL NUMBER OF UNEMPLOYED IN NZ

March 2000

120,000

Seasonally Adjusted

OFFICIAL RATE OF UNEMPLOYED

March 2000

6.4%

OR ONE IN 16 PEOPLE

Seasonally Adjusted

PEOPLE REGISTERED AT WORK & INCOME NZ

Figures unavailable

NOTIFIED VACANCIES

Figures unavailable

RISE IN NUMBER OF UNEMPLOYED IN LAST THREE MONTHS

Dec 99 — March 2000

1,000

DROP IN LAST YEAR

March 99 — March 2000

14,000

GLOBAL

SPAIN	15.1%
ITALY	11.2%
FRANCE	10.5%
GERMANY	9.0%
CANADA	7.0%
AUSTRALIA	6.7%
OECD Average	6.6%
NEW ZEALAND	6.4%
BRITAIN	5.9%
JAPAN	4.7%
UNITED STATES	4.1%

OFFICIALLY UNEMPLOYED

The official unemployed rates are an internationally recognised figure for unemployment based on the Household Labour Force Survey run by Statistics New Zealand. These are the latest figures for March 2000

NORTHLAND	9.0%	or one in 11 people
AUCKLAND	6.5%	or one in 15 people
WAIKATO	7.7%	or one in 13 people
BAY OF PLENTY	7.2%	or one in 14 people
GISBORNE-HAWKES BAY	6.9%	or one in 14 people
TARANAKI	9.8%	or one in 10 people
WANGANUI-MANAWATU	6.7%	or one in 15 people
WELLINGTON	6.3%	or one in 16 people
NELSON-MARLBOROUGH		
TASMAN-WEST COAST	4.9%	or one in 20 people
CANTERBURY	5.9%	or one in 17 people
OTAGO	6.5%	or one in 15 people
SOUTHLAND	6.5%	or one in 15 people

EMPLOYED

NUMBER OF PEOPLE IN JOBS IN NZ 1,765,000

March 2000

Seasonally Adjusted

FALL IN NUMBER OF PEOPLE IN JOBS IN LAST 3 MTHS

Dec 99 — March 2000

6,000

RISE IN NUMBER OF PEOPLE IN JOBS IN LAST YEAR

Dec 99 — March 2000

23,900

SECTORS WITH A RISE IN EMPLOYMENT IN THE LAST YEAR

CONSTRUCTION, WHOLESALE & RETAIL TRADE, TRANSPORT, STORAGE & COMMUNICATION, BUSINESS & FINANCIAL, EDUCATION HEALTH & COMMUNITY SERVICES

SECTORS WITH A DROP IN EMPLOYMENT IN THE LAST YEAR

AGRICULTURE, FORESTRY AND FISHING, MANUFACTURING

REGIONS

REGIONS WITH A DROP IN UNEMPLOYMENT IN THE LAST 3 MONTHS

Dec 99 — March 2000

BAY OF PLENTY
GISBORNE / HAWKES BAY
WANGANUI / MANAWATU
NELSON / MARLBOROUGH /
TASMAN / WEST COAST
CANTERBURY

REGIONS WITH A RISE IN UNEMPLOYMENT

NORTHLAND
AUCKLAND
WAIKATO
TARANAKI
WELLINGTON
OTAGO
SOUTHLAND

FULL-TIME and PART-TIME

of the "Employed" statistics

	FULL TIME	PART-TIME
MEN	866,200 (89%)	103,600 (11%)
WOMEN	512,800 (64%)	282,900 (36 %)
TOTAL	1,379,100	386,500
OVERALL %	78%	22%

GAIN OF FULL-TIME EMPLOYED IN THE PAST YEAR: 44,000

LOSS OF PART-TIME EMPLOYED IN THE PAST YEAR: 19,400

A SPECIAL SUPPLEMENT TO

THE JOBS LETTER

12 MAY 2000

ONE IN TEN PEOPLE OFFICIALLY JOBLESS IN NZ

OFFICIAL NUMBER OF JOBLESS IN NZ

March 2000

205,200

OFFICIAL RATE OF JOBLESS

March 2000

10.4 %

OR ONE IN 10 PEOPLE

RISE IN NUMBER OF JOBLESS IN LAST THREE MONTHS

Dec 99 — March 2000

9,800

FALL IN NUMBER OF JOBLESS IN LAST YEAR

March 99— March 2000

16,700

THE JOBLESS FIGURES

According to Statistics NZ, the difference between the official "unemployment" figures and the "jobless" figures is that many of the people on the jobless measurement are available for work, but not actively seeking it.

The reasons for not actively seeking work range from people being discouraged because they lack the skills needed, or were the wrong age, or that the right work was not available in their area, or they were only looking for jobs in the newspaper. This measurement also includes those actively seeking work but not yet available for it.

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OFFICIALLY JOBLESS

"Those Without a Job and Wanting a Job"

These are the statistics that are more commonly used by community workers and employment activists in New Zealand because they more accurately reflect the people who are their concern or clients. These "Jobless" figures are also based on the Household Labour Force Survey run by Statistics New Zealand, but include a wider definition of unemployment, usually referred to as "those without a job and wanting a job" ... (see note in side panel).

NORTHLAND	14.0%	.....	or one in 7 people
AUCKLAND	10.1%	.....	or one in 10 people
WAIKATO	10.9%	.....	or one in 9 people
BAY OF PLENTY	12.4%	.....	or one in 8 people
GISBORNE-HAWKES BAY	11.4%	.....	or one in 9 people
TARANAKI	12.9%	.....	or one in 8 people
WANGANUI-MANAWATU	12.7%	.....	or one in 8 people
WELLINGTON	9.3%	.....	or one in 11 people
NELSON-MARLBOROUGH			
TASMAN-WEST COAST	8.2%	.....	or one in 12 people
CANTERBURY	9.4%	.....	or one in 11 people
OTAGO	9.5%	.....	or one in 11 people
SOUTHLAND	10.5%	.....	or one in 10 people

AGE and LONG-TERM

YOUTH UNEMPLOYMENT RATE - AGED 15-19 YEARS 18.3%
March 2000 one in 5 young people

MATURE UNEMPLOYMENT RATE - AGED 50-65 YEARS 4.7%
March 2000 one in 21 mature people

LONG-TERM UNEMPLOYED (OVER 6 MONTHS) 48,400
March 2000 40% or one in 2 of the unemployed

LONGER-TERM UNEMPLOYED (OVER 2 YEARS) 9,900
March 2000 8% or one in 12 of the unemployed

VERY LONG-TERM UNEMPLOYED (OVER 5 YEARS) 3,200
March 2000 3% or one in 38 of the unemployed

THE SCHEMES

Figures from Work & Income NZ, ETSA and Youth Affairs (As at the end of March 2000)

TASKFORCE GREEN	1,095
JOB PLUS	4,735
JOB PLUS MAORI	144
JOB CONNECTION	388
ENTERPRISE ALLOWANCE	120
ENTERPRISE ALLOWANCE WITH CAPITALISATION	214
TRAINING OPPORTUNITY SCHEME (TOPS) (March quarter)	8,071
YOUTH TRAINING (SKILL NZ) (March quarter)	5,161
LIMITED SERVICE VOLUNTEERS (ARMY/NAVY) (March quarter) ..	86
CONSERVATION CORPS	1,650
YOUTH SERVICE CORPS	195
COMMUNITY WORK (still counted as unemployed)	5,035

PARTICIPATION

LABOUR FORCE PARTICIPATION RATE

March 2000

Seasonally Adjusted

65.3%

down from 65.4% last year

RACE

MAORI RATE OF UNEMPLOYMENT

March 2000

14.6%

OR ONE IN SEVEN PEOPLE

PACIFIC ISLAND RATE OF UNEMPLOYMENT

March 2000

12.3%

OR ONE IN EIGHT PEOPLE

NZ EUROPEAN RATE OF UNEMPLOYMENT

March 2000

5.0%

OR ONE IN 20 PEOPLE

The Jobs Letter

DIARY

27 April 2000

A Department of Labour briefing paper released under the Official Information Act indicates the government has been advised that a 12-week employer funded paid parental leave policy would cost the country about 1,000 jobs. The Alliance policy seems unlikely to become law as Labour's policy is for six weeks paid leave.

The Ministry of Education research division finds that two-thirds of the overseas teachers who have come to NZ in the past few years want to stay on after their contracts end.

30 April 2000

Workplace legislation requiring large firms to have Equal Employment Opportunity policies will be introduced later this year. Currently, only government departments are required to have EEO policies. Helen Clark says the legislation would be aimed at making it easier for women to get promotions, although the new law would not try to make pay equity between occupations enforceable. Clark: "We will not get action on equal opportunity programmes in the private sector unless we legislate, we know that that's the story of the 90's".

1 May 2000

International Labour Day.

The Pope expresses concern for the unemployed, the underemployed and the under-paid. Pope John Paul: "It invites us to face the economic and social imbalances that exist in the world of work and re-establish a correct hierarchy of values, where the dignity of men and women who work, their freedom, responsibility and participation assume top priority..."

Delays in processing student loans are causing financial problems for some polytechs. Taranaki Polytechnic CEO John Billingham says the polytech has \$440,000 in tuition fees owing to it due to student loans that have not been finalised. Waikato Polytechnic's David Rawlence estimates that student loan and allowance delays have cost his institution \$2.16m as 300 students cancelled their enrollments this year.

Laying off 443 staff has helped the Australian-based ANZ bank lift profits by 14%.

Trevor Mallard gives Don Hunn a "short" extension for the completion of his Winz review.

and a modern way in these things. We've learned from the past and our aims are modest. "

- Hodgson told the "Venture Capital" conference, run in New Plymouth last week by Venture Taranaki, that Industry NZ will be the agency government will use to help **boost sources of venture capital**. He outlined several ways this might be delivered, including straight venture capital investment; development finance; pooled development finance in partnership with the private sector; and "angel networks", which link small investors with small companies.
- Hodgson also reports that one of the first programmes Industry NZ will deliver is the **Incubator Development Programme**. This is designed to work with universities and local economic development agencies who are teaching innovators how to develop their ideas to the investment stage. Government officials have reviewed existing incubation services and found that support for start-ups was "thin" compared to other developed economies ... and Hodgson expects INZ to **invest over \$2m** in these initiatives over the next year.

Examples of business incubators have been springing up around NZ. The University of Otago and the Dunedin City Council are currently building the Centre for Innovation. The Canterbury Development Corporation's has ICAN, or Innovation Canterbury. Victoria University has the Innovation Greenhouse. Unitec in Auckland has a Centre for Innovation and Entrepreneurship and Massey University has an incubator at its Albany campus in Auckland. Typically, these incubators supply workspace on favourable terms and back the new ventures with various levels of business planning or managerial advice. The centres will often have office facilities available and access to finance, accounting and legal services.

- Deputy Prime Minister Jim Anderton and Finance Minister Michael Cullen have offered West Coast Mayors hope that the existing eight-year **rimu contracts on the West Coast** will run to their full term as part of the government's \$120m development package for the region.

This is quite a turn-around for Michael Cullen, as only eight months ago he was jostled and splattered with eggs at a pro-logging rally in Greymouth. Buller Mayor Pat O'Dea and Grey Mayor Kevin Brown now describe Dr Cullen as "a friend of the Coast" and have even offered to pitch in to buy Cullen a new suit. The job for Cullen and Anderton now is to put the case for the rimu contracts before their cabinet colleagues — in the face of adamant government policy commitments to **stop all native forest logging on Crown land**.

- Representatives of the wood sector of the **National Distribution Union** have met with Jim Anderton to plead for the retention of the rimu contracts. The *Greymouth Evening Star* reports that union secretary, Jim Jones, is pointing to both the green movement and the timber industry as being "guilty of **playing the emotional hand** rather than dealing with facts". The union believes that sustainable management of Crown-owned native timber should be allowed ... pending an independent, well-qualified research report on whether the current regime of rimu harvesting was sustainable or not. Jones: "Timberlands has been recognised worldwide as having developed innovative sustainable harvesting techniques ... do we want to lose that?"
- **Native Forest Action** disputes Timberland's claims that its logging operations are indeed **sustainable**. NFA: "The claims that logging North Okarito and Saltwater are "sustainable" have never been tested under the Resource Management Act or any public or independent process.

The Jobs Letter

DIARY

2 May 2000

National MP Roger Sowry says that the government is pressuring Don Hunn to make recommendations about Winz that are in line with the government's thinking on the agency. Sowry says the government wants the Hunn report to recommend a split between the employment and income support functions of Winz.

Act MP Muriel Newman asks that the government release the Hunn report, "warts and all", rather than allowing Winz management and their lawyers the opportunity to water it down.

3 May 2000

Steve Maharey tells the social services select committee that the benefit system is too complicated and is one reason why frontline Winz staff make mistakes. Maharey says he wants to simplify the system, and he will introduce a new abatement schedule over the next year that will encourage people to work.

Winz staff received \$4.36m in performance payments last year.

4 May 2000

Statistics NZ releases employment figures for the first quarter of the year. While expectations had been for a drop in unemployment, the rate rose from 6.3% to 6.4%. See our special *Statistics That Matter* feature in this issue.

5 May 2000

The Community Trust of Otago and six regional, city and district councils are looking at forming a new region-wide economic development agency. Trust chairperson Clive Mathewson says the new organisation would promote innovative ideas for development, and will be modeled on the region-wide Venture Taranaki agency.

7 May 2000

The US unemployment rate drops to 3.9%, the lowest in 30 years.

Thousands of staff at British Airways face redundancy. The airline's CEO Rod Eddington would not be specific on numbers, but says that job losses would be part of his plan to turn around last year's company losses of \$NZ188.4m.

The concept of sustainable, in terms of a forest's well-being, refers to *ecological* sustainability — the extent to which the forest will retain its ecological integrity and biodiversity. Timberlands have neatly redefined the term to refer to *economic* sustainability — the extent to which they can log the forest without destroying its potential to be logged in the future. It is a fraud. Felling and removing 10,000's of centuries old forest giants dramatically alters the ecology of the area. In terms of plant and birdlife the effects are far-reaching and non-reversible..."

Native Forest Action is especially concerned that allowing the rimu logging to continue while also paying out a \$120 million compensation package, amounts to the West Coast getting "**both the money and the bag**". NFA: "What is the point of giving \$120 million to a region of 30,000 people unless there are major conservation gains for the whole country? \$120 million is a hell of a lot of money – in the same league as the \$170 million Ngai Tahu and Tainui settlements which were compensation for large areas of land and long-term and very major historical grievances. The only reason it is being offered to West Coasters is to bring the logging to an end. There would not be a package otherwise. It will look mad if the government gives all that money but still allows logging in forests that were supposed to be protected..."

- **The Furniture Association** is also lobbying government to retain Timberland's supply of rimu ... which the association says is its mainstay timber and a unique point of difference for exports valued at \$85m. The Association claims that if the government moves to curtail rimu logging on the West Coast, this will mean **the loss of 4,000 jobs**. (Furniture Association executive director Marcia Dunnnett told *The Independent* that she arrived at the 4,000-job figure—which represents more than 40% of the industry's 9,592 workers — after "consultation with a couple of major industry players".)

Native Forest Action says these job losses are being wildly over-stated. NFA: "New Zealand is not short of timber. There is a rapidly increasing supply of native timber from private forests, there are special decorative exotic timbers available for furniture and many furniture manufacturers are now choosing to use pine. Although Timberlands has orchestrated a few rimu users to lobby Ministers on its behalf, there has not been a single company that has said that it would have to reduce staff if Timberlands rimu ended. Of course companies using rimu would prefer not to change. But, claims of thousands of threatened jobs are politically motivated and untrue..."

- The end effect of stopping the rimu logging on jobs will depend on **whether furniture manufacturers will use other timbers** or leave the industry. Bruce Nimmo, a director of JL Lennard, supplier of specialty timbers, says the main NZ-grown alternatives for rimu furniture are macrocarpa, specialised joinery-grade pine and eucalyptus. Nimmo: "Most timbers are substitutable. The issue is really heritage and fashion." Nimmo notes however that, with the exception of pine, consistency and supply of alternative timbers is a problem.

But the furniture industry does not presently use all the rimu currently on the market. Grant Carruthers, co-owner of Westco Lagan, processors of 90% of Timberlands' sawlogs, estimates that only 60% of his rimu supply goes to furniture makers, and the remaining 40% to outfitting kitchens, making door jambs and flooring. His sawmill plans to re-focus on pine next year — without a loss of jobs.

after the **DOT.COM STOCK CRASH**

On Friday 14th April, Wall Street experienced **its biggest one-day fall in history**, ending a week in which US markets lost \$2 trillion in value — the equivalent to Germany's entire economy. Worst hit was Nasdaq, the stock exchange favoured by hi-tech companies such as Microsoft. Bill Gates saw his personal fortune drop \$30 billion in a few hours ... and Amazon.com and other famous e-commerce companies started laying off staff.

But, in the following weeks, it soon became clear that the dot.com crash was not going to be the beginning of a stockmarket armageddon. Despite the heavy losses, most stock traders were accepting the fact that the new technology shares were grossly over-valued.

- Several weeks before the crash, Larry Elliot commented in *The Guardian* that every financial bubble has the ingrained belief that “this time it will be different”. And there were **plenty of signs** that the dot.com bubble was going to burst.

According to research before the crash by HSBC, the divergence in price-earnings ratios between old and new economy stocks was the largest for any market ever. Even by a very optimistic forecast of growth rates, new economy shares were overvalued by 40%. Similarly, Sushil Wadhani of the Bank of England's Monetary Policy Committee calculated that 133 internet companies which have gone public since 1995 would need to expand their revenues by an average of 80% a year for the next five years to justify their values before the crash. Even Microsoft has averaged only 53% a year.

- **How did things get so over-valued?** Most of it has been put down to plain old hype and speculation. But there has also been a powerful new myth at work in financial circles: that the dot.com age is re-writing the basic laws of economics.

One central theory of the new technology-driven economy is the concept of **the “network effect”** — a belief that “... as the number of nodes in a network increases arithmetically, then the value of the network increases exponentially”. The workings of this theory can be seen that when you only have one mobile phone, fax machine or website ... the product is fairly worthless. But as you add greater numbers of connections to these new technologies ... then

they each make the earlier connections more valuable. It is this “network effect” that has driven up the perception of the values of shares in new technology ventures. It has also generated a host of free products — from email programmes to web browsers — each trying to get as many network users as possible to establish their overall “value” in the marketplace.

But, as David Bennahum remarks in a recent issue of *Strategy & Business*: “The real “network effect” is this: in the end, booming subscriber lists cannot camouflage the fact that “cashflow is cashflow”. Investors want a return on their money — and no economy, new or old, can continue to support loss-making businesses.”

“... there were signs of a Soviet-style misallocation of resources as money floods into companies that are never likely to make a profit.”

— Anatole Kaletsky, *The Times*

- **How will the dot.com crash effect jobs?** The current deflation of new technology stocks could actually prove to be a benign move for employment in those traditional businesses that were being starved of investment capital during the dot.com hype.

Anatole Kaletsky of *The Times* comments: “A reduction in tech stock investment might be desirable in its own right, since there were signs of a Soviet-style misallocation of resources as money floods into companies that are never likely to make a profit. The availability of virtually free capital to internet businesses that never think of making a profit wastes resources, starves the old economy of funds and distorts competition, putting unhealthy pressure on otherwise sound bricks-and-mortar businesses...”

- **Voice: von Hoffman on Globaloney.**

“Car drivers have been wheeling into petrol stations throughout America to discover that their vehicles don't run on information, but on fuel. This may come as a shock to a nation now awash in “globaloney” — a belief in a global economy in which we Americans get to do all the buzzy-jazzy stuff, and everyone else does the work. We have settled comfortably into this post-industrial, gravity-free existence: we sell ingenious things such as hedge funds, movies and intellectual property to the rest of the world, while they sell us food, clothing and shelter in return. It doesn't matter that, as a result, we now buy far more than we sell — manufacturing goods is a job for others, not for Americans, because it's all dirty, low-paid work...” — Nicholas von Hoffman, *The New York Observer* 29 April 2000

DIARY

8 May 2000

Rural people and youth in the Central North Island are not getting the economic gains that other NZ'ers are. Janet Sceats, a demographic and economic consultant, says many people in the Central North Island are worse-off than people in urban areas. Sceats says the area is fragmented and without region-wide leadership, so it does not attract the attention and resources that urban disadvantaged areas do. Drawing from census data, Sceats says rural people in the Central North Island have worse health, leave school earlier, have higher per capita ratios of children, old people and single-parent families, have more serious crime in their communities and have higher rates of unemployment.

The marine engineering and construction arm of the Northland Port Corporation sheds 72 staff. Most of the workers are on fixed contracts which won't be renewed when they run out.

Germany looks set to reduce its armed forces by 158,000 people with an eye to saving \$NZ2.8 billion annually.

The coalition government introduces legislation to repeal the previous government's zero tariff policies.

Editor

Vivian Hutchinson

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VOICES

on the JOBS FIGURES

"In spite of the recent volatility in part-time employment, the labour market remains relatively strong..."

— **David Drage, ANZ Bank economist**

"The Government welcomes today's information because it reveals that unemployment is tracking at significantly less than for the same period last year. There is certainly no suggestion, from these figures, that there are any medium-term risks of the economy overheating."

"Unemployment continues to be a blight on our younger population. This provides further evidence of the need for the Government's focus on providing opportunities for young people to upskill themselves for the modern workforce. Much more work has to be done in this area. The Government remains committed to reducing the rate of unemployment and this can be achieved without compromising our other economic objectives ..."

— **Steve Maharey, Minister of Employment and Social Services**

"The unemployment figures revealing a rise in unemployment for the first time in 15 months are an early wake-up call for the Labour-Alliance Government. While the rise in fulltime employment is welcome — the outlook for the future is being thrown into uncertainty by the Government's policy programme."

"Employers are saying they will be reluctant and unable to take on more staff as they grapple with the changes under the Employment Relations Bill, ACC reform and general policy uncertainty. The New Zealand labour market is already facing skill shortages without having the added rigidities this Government is imposing. This Government is turning a booming economy into a collapse in confidence among businesses..."

— **Bob Simcock, National Party Employment Spokesman**

"With unemployment currently institutionalised in New Zealand, punitive measures such as work for the dole and means testing and suspensions of benefits are simply exacerbating a vulnerable and volatile sector of the society. These measures are making the problems of high unemployment worse and the Green Party wants the government to abolish them immediately."

"Today's unemployment levels need to be addressed by a government committed to zero unemployment. This is not impossible and the government must begin now to make a substantial commitment to hands on employment creation..."

— **Sue Bradford, Green Employment Spokesperson**

"This government seems determined to pay back its union masters through the Employment Relations Bill and paid parental leave, without considering the effect this has on young New Zealanders who will be denied their first job. The Alliance's election promise to young people was that no one would leave school and go straight on the dole. Jim Anderton could honour this by letting businesses grow and create jobs, but instead, he seems hell-bent on destroying any hope that our youth will succeed..."

— **Clint Heine, President of Prebble's Rebels**

"The New Zealand University Students Association (NZUSA) rejects Act's senseless stance on youth employment, which fails to address the real issues concerning youth. We do not agree with Dr Muriel Newman's view that long term unemployed youth should be made to search for work 40 hours a week in return for the dole. The statistics of youth unemployment are distressing, however young people need real jobs and open educational opportunities ... and not to be used as pawns in petty politics."

"Youth unemployment is a result of worsening employment opportunities and increasing barriers to our education system. After nearly a decade of being ignored, we hope that the new Labour-Alliance Government along with the Green party will put more time and energy into listening to the voice of New Zealand's young people and their concerns for their future..."

— **Tanja Schutz, Co President NZUSA**