



MTA Submission

To the Productivity Commission on
Technological change and the future of
work

17 February 2020

Dear Sir / Madam

Submission: Technological change and the future of work

This submission is from:

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Thank you for the opportunity for MTA to provide comment on the Technological change and the future of work consultation regarding the views of and its effect on the automotive industry.

Yours sincerely,



Greig Epps
Advocacy & Strategy Manager

There is time to prepare for change but not time to waste¹

Introduction

The Motor Trade Association (Inc) (MTA) was founded in 1917 and in 2017 celebrated 100 years of trust with the NZ motoring community. MTA currently represents approximately 3,600 businesses within the New Zealand automotive industry and its allied services. Members of our Association operate businesses including automotive repairers (both heavy and light vehicle), collision repair, service stations, vehicle importers and distributors and vehicle sales. The automotive industry employs 57,000 New Zealanders and contributes around \$3.7 billion to the New Zealand economy.

MTA is pleased to see Future of Work announced as a priority in the 2020 Budget, which acknowledges the importance of the Commission's work on this.

The future of our automotive business members will be starkly affected (if it is not already) by changes in the way we work and live. Some of this is due to technology in our hands and some will be due to societal changes supplemented by infrastructure activity. Most obviously, for a carbon-intensive industry, the impact of climate change and society's response to that change is front of mind. However, consumer demand for micro-mobility (e-scooters, e-bikes, etc), electrification, and mobility-as-a-service (MAAS, encompassing ride-sharing and car-sharing) will affect the volume of work in all areas (sales, repair, and fuelling).

The technology of vehicles themselves is also becoming more complex. Automotive technicians nowadays rely on computer scanning of vehicle systems to provide an initial diagnosis of problems. While the automotive technician will still use their experience (years of understanding similar problems) and their senses (hearing engine noise, feeling how a car drives), the scan tool will short-cut some of the questions and tests needed to determine where a malfunction exists. Trades are becoming more sophisticated than they have ever been before.

As such, MTA is very concerned, on behalf of its member businesses, to ensure that New Zealand finds a clear path to the future of work(ing differently).

¹ Draft Report 1, p58

Submission

In reading the five reports, one overarching theme became clear to us – that of **just transitions**.

Just transitions is more often used in discussions around climate change and sustainability. In that sphere it refers to how emissions-heavy sectors and government will work with iwi, communities and regions to manage the impacts and the opportunities of changes brought about by the transition to a low emission economy, in a fair, equitable and inclusive way².

MTA submits that this can apply to an uncertain technological future as well as the direct impacts of climate change. In fact, it is likely that as many of the technological impacts on the automotive sector will come in response to climate change as much as they will be moves to improve productivity in the manufacture, sales, and repair of vehicles.

We know that businesses cannot deliver the same product or service forever. We know that, in the long run, many MTA members will have to drastically rethink their core business. We also know that there will be a time of confusion and uncertainty between the old way of doing things and the shift to the new way. It is in this in-between time that we must be careful not to leave anybody behind. As a trade association we are committed to equipping MTA members with the skills to move to the new way and the support they require as the old way is phased out. As this will affect many other businesses in all areas of the economy, we see partnership with government on solutions as a key aspect of the transition.

This transition support could take the form of income security for the members and their employees, incentivising uptake of new technology by firms, and education, training and reskilling for members and their employees. We will address each of these pillars of a just transition in turn.

In *Draft Report 2: Employment, labour markets and income*, the Commission said that “governments need to find ways that promote technological change while providing security and support to people adversely affected by such change”³. We think that this sentence gets to the crux of the matter. It is also supported by a recent report from McKinsey & Co in which they note:

Governments can develop national strategies to foster technology adoption, with an emphasis on enabling regulation, ensuring a faster and better digital infrastructure, and building a robust innovation ecosystem⁴.

The Commission asks the valid question in *Draft Report 2* about who needs to be in the table. This is an issue that we as an organisation also need to think about on a strategic level – that is, which businesses fit into the MTA model? Historically, for example, unmanned service

² <https://www.mbie.govt.nz/business-and-employment/economic-development/just-transition/>

³ Draft Report 2, p22

⁴ *A government blueprint to adapt the ecosystem to the future of work* (McKinsey; Feb 2020); accessed at <https://www.mckinsey.com/industries/public-sector/our-insights/a-government-blueprint-to-adapt-the-ecosystem-to-the-future-of-work?>

stations do not fit within our membership model. As the industry moves in part towards unmanned stations, we need to consider whether we need to update our model to include this increasingly common business structure. Similarly, the Commission needs to think about who the employers and employees of the future will be. This should not be to the neglect of employer groups, but rather as an additional seat at the table.

The timeframe over which this change will happen is incredibly uncertain. This does not mean that no work should be put towards thinking of ways to address the just transition for different parts of the economy and society. Rather, it suggests that we need to set frameworks and structures that can respond to change as it develops. We are mindful of the 2016 work by American economist Robert Gordon⁵ who questions whether technology is making any great impact on productivity at this point in history⁶.

Gordon compares the dramatic and substantial change in how we work that was made between 1870 and 1970. Since 1970 however, despite the vast improvements in computing power and advances in machinery and robotics, he reports that productivity growth rates in the US and other western countries have not been particularly noteworthy. As the *Washington Post* reviewer sums up:

the issue is not whether to be optimistic or pessimistic. The right approach is to be realistic. The infatuation with technology is a source of strength, but also of simplistic self-deception. *What Gordon has provided is not a rejection of technology but a sobering reminder of its limits* [emphasis added]⁷.

Incentivising uptake of technology by firms

The Commission notes that countries that have adopted policies that favour income security are more open to technology adoption on both sides of the employment relationship⁸. McKinsey notes that governments can lead by example by deploying digital technologies in their own processes and services. This action would boost technology awareness and understanding of implementation challenges among policy makers and it would also save public money that can be shifted to a just transition agenda⁹.

A key example of this in the transport sector is the need for NZTA to upgrade many out-dated legacy systems with critical information (such as the Motor Vehicle Register). Many productivity and insight initiatives that could leverage the data collected in that system (or that could be stored in that system) are being stymied by difficulties communicating with that system.

This section will also look at other factors which could incentivise technology adoption.

⁵ *The Rise and Fall of American Growth: The US Standard of Living since the Civil War* (Princeton, 2016)

⁶ https://www.washingtonpost.com/opinions/technology-wont-save-us-from-slow-growth/2016/01/17/6fe2a1cc-bb9c-11e5-99f3-184bc379b12d_story.html - referring to Gordon's recently published book on this topic.

⁷ Washington Post article, see above n6

⁸ Draft Report 2, p84

⁹ Ibid note 4 at page 14.

In *Draft Report 1: New Zealand, technology and productivity*, the Commission quoted an earlier submission from MTA which said that “we expect that motor vehicle technicians will continue to be in demand, albeit with a more tech-heavy diagnostic process”¹⁰. The tech-heavy diagnostic process we refer to will not come of its own accord. It will be pushed forward by a combination of consumer demand, businesses acknowledging efficiency gains, and government encouragement. This is reinforced in *Draft Report 2: Employment, labour markets and income*, which opened by saying that “firms are more likely to adopt technology if the adjustment costs they face, including labour-related costs, are low relative to the benefits they anticipate from technology adoption”¹¹.

Already we are seeing technology come to the fore in many of our members’ businesses. For example, Automatic Number Plate Recognition technology is being used at many service stations around the country to detect and prevent drive-off fuel thefts. This technology works by recognising licence plates filmed on security cameras at the service station. The technology then compares this plate to the Motor Vehicle Register which can identify the owner of the vehicle. The accompanying application also allows for vehicle of interest matching between all service stations using the system. We expect to see more of this kind of technology as time goes on.

More workers can and do grow the economy, at least in absolute terms. However, this approach is a bit like recruiting more people to push a broken-down car rather than fixing its engine. More people might move the car faster, but it is not a great way to get to one’s destination.

For the New Zealand economy, “fixing the engine” is analogous to improving productivity growth. Technology adoption is an important way to achieve that goal. Adoption, in turn, requires increased investment in capital equipment, complementary assets and human capital¹².

We strongly agree with the Commission’s comment in *Draft Report 2* that:

to successfully innovate and make the most of new technology, firms need to reinvent many aspects of their operation – including process and service, software development, organisation structure and marketing. This requires not only R&D capability, but also considerable management expertise¹³.

In response to Question 5.3 posed by the Commission, we think that the Commission has answered their own question – that “New Zealand’s employment protection legislation creates costs and legal risks for firms. Firms fear a legal challenge that might complicate or delay a restructure. Legal cases are decided on whether the firm strictly adhered to the specified process”¹⁴. While MTA is certainly not suggesting that the employment protection legislation be done away with, we do think that an increased focus on substance rather than process would be advantageous to both employers and employees.

In *Draft Report 5: Technology adoption by firms*, the Commission says that “the availability and quality of government services affect firms’ willingness to adopt technology. In many

¹⁰ Draft Report 1, p36

¹¹ Draft Report 2, pp2 and 84

¹² Draft Report 2, p21

¹³ Draft Report 2, p85

¹⁴ Draft Report 2, p87

cases, government-provided services and infrastructure are essential complements to firm investments”¹⁵. We agree that government support (including funding, tax credits and training) will be vital in encouraging firms to take up new technology. We also agree that “competition is important for both technology adoption and productivity improvement”¹⁶.

Education, training and reskilling

McKinsey found that not enough workers have the skills needed to fully adopt technology as it changes. Thus, the uptake of technology remains behind its current potential. For the people who have lost their jobs, out-dated skills may make it difficult for them to re-enter the workforce¹⁷.

Businesses are already struggling to find people that can work with digital technologies. In Germany, for example, interviews with managers and human resource departments suggest that, by 2023, the labor market will have a gap of about 450,000 workers who are able to perform complex data analysis. But it is skills obsolescence that is fueling citizens’ job security concerns¹⁸.

We agree with the Commission’s comment in *Draft Report 3: Training New Zealand’s workforce* that “the education and training system will need to be responsive to demand from firms as it emerges, and to people seeking to attain new skills”¹⁹. We also acknowledge the crossovers this education and training has with income security.

As the Commission says in *Draft Report 4: Educating New Zealand’s future workforce*, the “academic, university-focused routes are the “well-lit” pathway, gaining more attention, respect and resources than others”²⁰. There is a great future in the motor trade, and in trades more generally, and we should be doing all we can to encourage people to do an apprenticeship or otherwise be involved in the trades.

It is interesting that a “trainee” must be an employee, which excludes the self-employed and employers²¹. We advocate for education for staff across the business, including business owners, perhaps in a Continued Professional Development framework.

The Commission said that:

Education policy makers tend to assume that tertiary education and training should always involve progression to higher-level qualifications. However, people who are in the labour force may seek to develop particular job-specific and applied skills that are credentialled at the same level as, or at lower levels than, the qualifications they already hold²².

¹⁵ Draft Report 5, p12

¹⁶ Draft Report 5, p14

¹⁷ Ibid at note 4.

¹⁸ Ibid at note 4, page 7.

¹⁹ Draft Report 3, p5

²⁰ Draft Report 4, p20

²¹ Draft Report 3, p20

²² Draft Report 3, p23

This comment sums up well the view of MTA. Learning is a life-long activity and should support for the improvement aims of the learner (whether they are a young person, an apprentice, a mid-career employee, or a business owner). In many cases, the owners of the approximately 500,000 small businesses in New Zealand have taken on a business because they like the product or service delivered, not necessarily because they have learnt the skills needed for running a business. These owners do not have much free time and have differing levels of formal education achievement.

The introduction of micro-credentials is the perfect opportunity for developing fit-for-purpose, smaller courses. Bite-size learning experiences or pieces of information would allow MTA members to upskill in particular areas without needing to undertake a full course of study. This would suit members well as it would not require days or weeks out of the business, and they could learn specific skills that could help them in their business immediately. We note that the Motor Industry Training Organisation (MITO) has launched Electric Vehicle Technician micro-credentials. We applaud this.

It is very difficult to change the contents of a qualification. The curriculum is prescriptive, and it is quite a process to make any adjustments. Conversely, micro-credentials are much quicker to bring in and so can be responsive to industry need.

Income security vs job security

Draft Report 2: Employment, labour markets and income argued that “there would be benefits for displaced workers, at risk workers and the labour market more generally, if suitable and cost-effective labour market programmes were available to a wider group of people”²³. We commend the Commission for taking a wide view of the issue and not ignoring aspects of the bigger picture just because they are difficult problems to solve. We note that in 2015 about two-thirds of people who reported losing a job did not receive Jobseeker Support²⁴.

The McKinsey report also notes that “research suggests that the Future of Work will be less inclusive and more unequal”. It goes further to assess that:

Besides the social implications, a vicious cycle can arise from increasing inequality: aggregate demand falls as income and wealth accumulates among high earners with low propensity to consume; companies invest less and create fewer new jobs; and productivity stagnates along with wages, ultimately leading to even lower aggregate demand²⁵.

In *Draft Report 2* the Commission referenced Bredgaard & Daemmrich’s 2012 paper which said that “security is no longer to hold on desperately to the same job throughout your life. Security is to stay cool when you hear rumours of outsourcing from the boardroom. Because deep down you know that you have solid skills and that you will quickly be able to find a new

²³ Draft Report 2, p2

²⁴ Draft Report 2, p54

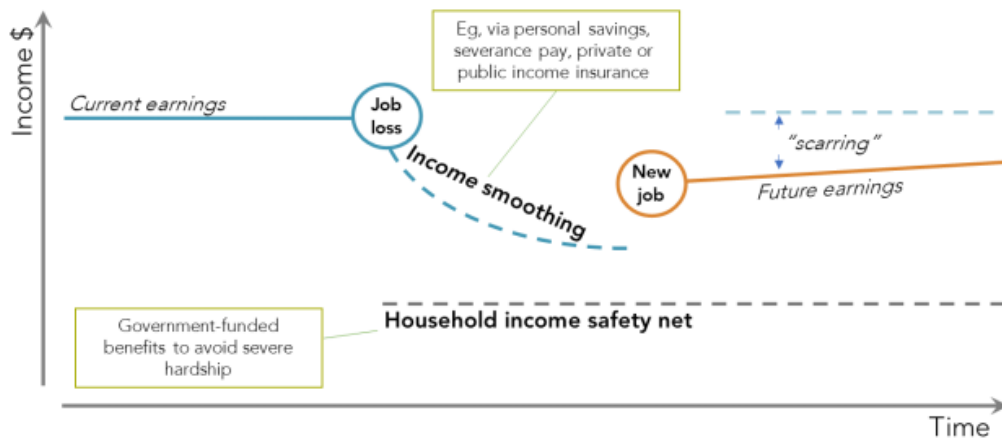
²⁵ *Ibid* at note 4.

job if the old one is relocated”²⁶. We think that this is a good way to articulate the focus on income security over job security.

In many cases, the transition from a job loss to a new job will result in some income scarring. Figure 3.3 in *Draft Report 2* illustrated this clearly.

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Figure 3.3 Income for the unemployed subsequent to job loss



Income smoothing

The Commission discusses some options for income smoothing. For example, in *Draft Report 2* there is a discussion of mandatory redundancy payments. MTA agrees with the Commission that “requiring financially distressed firms to pay redundancy compensation is particularly problematic, as costs fall when firms are least able to afford them”²⁸ and that “mandatory redundancy payments directly increase the cost of labour, and can encourage non-standard forms of employment over standard forms”²⁹. We note a crossover with MBIE’s current “*Better protections for contractors*” discussion document which closes for submissions shortly before the Commission’s inquiry.

The Commission also discusses portable individual redundancy accounts where each worker would contribute to their own account throughout their working life. They can withdraw from this account in the event of job loss and can typically access any remaining balance on retirement³⁰. The idea of integrating this system with KiwiSaver is on its face a good idea, although we do question how difficult it would be for both workers and employers to pay a percentage of income into both the portable fund and KiwiSaver. Whether they were the same fund or separate KiwiSaver accounts, this fund could put pressure on finances³¹. The

²⁶ Draft Report 2, p49

²⁷ Draft Report 2, p52

²⁸ Draft Report 2, p66

²⁹ Draft Report 2, p57

³⁰ Draft Report 2, p67

³¹ With respect to government finances, consideration must also be given to discussions around lifelong learning accounts and similar funds that are being mooted to assist with training and re-training of citizens

risk is that people would decrease their KiwiSaver contributions in favour of the portable fund. While this might work out in situations where there are no job losses through a person's career and the fund turns into a superannuation fund eventually, those who must call on the fund due to a job loss may struggle financially in retirement.

Unemployment insurance modelled on the ACC scheme with support payments at a high income-replacement rate may increase the cost of labour and discourage hiring, but it would smooth the incomes of displaced workers so may have a net societal benefit. The devil would again be in the details. ACC is currently modelled on a risk assessment of various occupations so that higher risk roles attract a higher levy. It would be incredibly difficult to rank occupations based on a risk of dissolution due to technological change. Also, how do we determine if a role has been consigned to the annals of history or if it has simply evolved with technological and social change (varying consumer demand).

The case for a Universal Basic Income was described as weak by the Commission in *Draft Report 2*, and we agree with this³². The Commission found that "there are better ways to address concerns about technological change" and "the Commission does not see merit in further investigating this option as a means of improving income smoothing"³³.

Labour market programmes

The Commission notes that "there is a large gap between good intent and robust evaluation of the effectiveness of labour-market programmes. Few programmes are subject to robust evaluation"³⁴. Because of this, it is hard for us to give an evidence-based critique of suggested labour market programmes. Having said that, we do think that industry-focused training is important as one part of future successful labour market programmes.

MTA finds logic in the Commission's comment that:

should the Government desire to better support people, or support people currently ineligible, via labour-market programmes then it needs to first consider how to modify the current system so that it learns and innovates. This means considering issues of system architecture, service commissioning and evaluation. It would be useful to examine moving responsibility for labour-market programmes outside MSD to decouple these programmes from the welfare system"³⁵.

As mentioned at the beginning of this submission, in 2015 about two-thirds of people who reported losing a job did not receive Jobseeker Support. Decoupling the labour market system from the welfare system would go some way towards offering real support to all people losing jobs.

across their career (rather than the current education system focus on cementing a qualification and career in one's early 20s).

³² Draft Report 2, p71

³³ Draft Report 2, p71

³⁴ Draft Report 2, p78

³⁵ Draft Report 2, p82

Our assessment is based on a comparison with innovation practices in the commercial sector. Innovation does not happen when you are undertaking your “business as usual” or BAU activities. It requires resources to be deployed separately, sometimes in parallel, to BAU so that the ideas are given time and space to develop. While innovation may arise from inspiration based on the observation of BAU, it is very difficult to divert resources to that innovation while still serving your customers in the way they currently expect.

Conclusion

No-one can really see what the future holds for us. Nonetheless, organisations like MTA needs to make their best effort at predicting possible future pathways in order to advise their members on how to prepare. The exact technological changes that will affect the automotive sector are not yet known, nor – as Robert Gordon alludes to – is the timeline very clear for those changes manifesting.

Despite this uncertainty, governments can work with industry to mitigate the lack of clarity through robust structures, policies, and processes that seek to respond to changes and to support business and people through any transition in a just and equitable manner.

MTA appreciates the opportunity to submit on the Technological change and the future of work consultation.



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