

The Human Capability Framework Ten Years On

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Introduction

Ten years ago, in October 1999, the Department of Labour published a paper, “Human Capability: a Framework for Analysis”. Setting out to explain the labour market and its implications for public policy, the Human Capability Framework (the Framework) ended up having much wider impact and influence than was originally envisaged. Ten years on, it is appropriate to review the nature of that impact and influence, and to ponder the extent to which the contents of the document still resonate.

This paper considers the human capability framework (the framework) from a policy practitioners’ perspective. It outlines the genesis of the framework, its uses, and reflects on its utility as a conceptual framework to examine labour market issues. The labour market has changed considerably over the past decade, and the paper examines the framework’s ability to provide insights into the new challenges and emphasis that this requires.

Development of the human capability framework (the framework) commenced in late 1998, and an initial version formed the basis for the Department’s post election briefing to the incoming Minister in mid-1999. This conceptual framework came over time to fulfil a number of other purposes: it was used as a key policy development tool within the department, and, in ensuing years it was also picked up and further developed by a range of researchers and government departments to inform their own thinking.

Of course, this framework is one of many frameworks or conceptual documents developed by government agencies in recent years. These have included the Growth and Innovation Framework developed by the Ministry of Economic Development, and later, the Government’s Economic Transformation Framework to name two. Conceptual frameworks are developed by departments for a number of different purposes, and with differing levels of neutrality towards any particular set of policy choices. They are also developed in response to Governments’ or departments’ desire to ‘brand’ their own particular approach. The main purpose of the framework originally was to provide a conceptual framework for understanding the dynamics and forces at work within the labour market.

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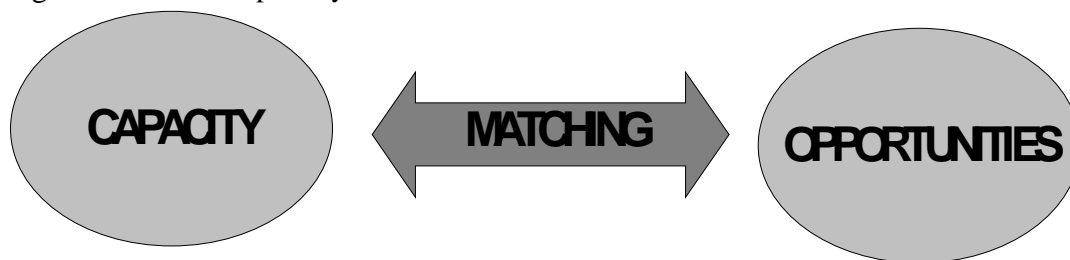
The Framework

The Human Capability Framework is a conceptual model of labour market dynamics that provides a comprehensive overview of key factors affecting the labour market, as they were seen at the time. These factors relate to attainment of skills, the business environment, the influence of regulatory regimes, and key social trends such as population ageing.

It was intended to provide a clear account – and common language about - the Department’s strategic direction and policy focus, following a revision of the Department’s purpose and mission in 1998. It sought to bring to life the new Departmental purpose statement, “We link social and economic issues to enable people to develop and utilise their potential for the advantage of themselves and New Zealand.” As such it was seen as being the analytical core for the Department’s Briefing for the Incoming Minister in 1999. It was also explicitly designed to be a common tool and reference point for policy development within the Department, assisting in framing questions about what the areas of policy focus should be for the Department, why they are important, and how the Government can affect them.¹ A companion document was developed for departmental staff, elaborating on how the various aspects of the Department’s work fit into the framework.

The framework identifies three core elements of the labour market: capacity (people’s skills, knowledge and attitudes), opportunities (places where people can utilise their capacity to generate income and other rewards) and matching (the process of matching the capacity that people have to the opportunities created). As such, it is a reasonably uncontroversial formula, which, as one former Departmental official has observed, is nothing more than a way of describing well-known economic relationships of supply and demand as they relate to the labour market. The simplest conceptualisation of the three elements is given in Figure 1 below:

Figure 1: Human Capability Framework



Department of Labour (1999) “Human Capability: A Framework for Analysis”

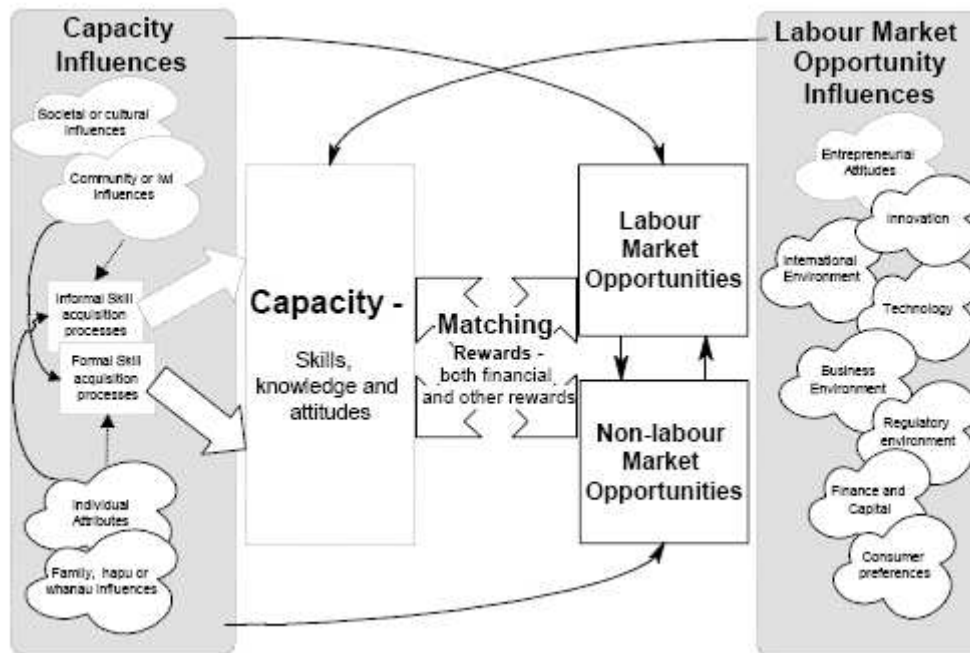
However, the framework also attempted to go one step further. Its notable feature is its integrated view of the relationship between key economic and social objectives, and the contribution of the labour market to both. It describes a broad view of the means whereby a country’s workforce or human resources are developed, utilised, and contribute to advancing wellbeing within society as a whole. On the supply-side, individuals’ capacity is seen to be shaped by a range of personal, social, and education factors, while on the demand-side, the nature of opportunities (both labour market and

¹ Maré, D, presentation to the Department of Labour Management Board, 22 February 1999.

non-labour market) are seen to be influenced by a range of social attitudes, and business and regulatory settings – both national and international. Once matched, capacity combines with opportunity in contributing to social and economic well-being for both individuals and society as a whole. This approach can be applied to analysis at the levels of the system, communities and regions, and individual people.

This more complex account of the dynamics of matching opportunity with supply is given in Figure 2.

Figure 2: Human Capability Framework



Department of Labour (1999:19) “Human Capability: A Framework for Analysis”

As one of the architects of the framework has observed², at one level the framework provides scant guidance for policy: while it allows one to see a range of issues, it doesn’t have any particular emphasis or argument. Of course, the value of a framework is not in providing a basis for argument on either side of a debate, but, as Shaw and Eichbaum (2008) observe, its value is that “a policy framework assists in explaining relationships of cause and effect in a given area of policy and can therefore provide a rationale for a subsequent strategy... in short, a framework precedes a strategy”.

Applications of the Framework

Within the group of the Department’s Ministers at the time, several adopted the language of the framework in public statements on labour and employment issues in public speeches. According to the principal political and strategy advisor of the Minister of Employment at the time, the “zeitgeist of the time was the move from [a]

² Mare, D, personal communication, 20 May 2009

social welfare [mentality] to social development". In this context, the framework allowed Ministers to tell this story particularly well, operating as it did as a "conceptually robust policy framework" that "joined up things across [the Minister of Social Development and Employment's] portfolios" and "allowed the Minister some purchase on macro-economic policy issues"³.

Within the Department of Labour, the framework was adopted to varying degrees. The Labour Market Policy Group of the Department used it extensively as a 'policy primer' until the Group's demise in 2004, and it was also used within the Community Employment Group among field workers as a problem diagnosis and discussion tool.

Some key policies developed by the Labour Market Policy Group were designed on the basis of it, including the Government's Employment Strategy and the Government's interagency Skills Action Plan, which focused on measures to address skill shortages.

Thus, the Employment Strategy, launched in July 2000, encompassed a comprehensive set of employment priorities, policies and programmes. Drawing on the framework, it outlined objectives focused on capacity, opportunity and matching, as follows:

- "Create opportunity – maximise employment opportunities through a steady growth in the demand for labour
- Build capacity – encourage the development of skills that are valued in the labour market
- Match jobs and skills – facilitate a well-functioning labour market, which minimises barriers to the matching of skills and jobs and enables participation in the labour market".

In a similar vein, the Skills Action Plan addressed capacity through action areas "supporting skills development" and "attracting global skills and talent"; opportunity was addressed through "assistance with regional / industry problem solving"; and matching was addressed through "improving labour market information" and "helping job seekers make better choices".

Furthermore, structural organisation of the Labour Market Policy Group was influenced by it, with one policy team focused on capacity ("people and skills"), dealing with labour market participation and skills development issues and another focusing on opportunities (work-place and regulatory issues). A senior-level advisor worked across both teams, in the interests of addressing 'matching' between the two, and to some degree the two teams worked together on projects.

On the 'opportunities' side, there is less clear evidence within the Department of the framework's utilisation as a conceptual basis, for example, in the development of employment relations and health and safety regulatory policy. This perhaps suggests that the framework had a lower profile within the wider Department than it did within the Chief Executive's office, and the Labour Market Policy Group.

³ Eichbaum, C, personal communication, 4 June 2009

The framework was also used and adapted in a number of different ways by other government agencies, notably the Career Services, the Ministry of Women's Affairs, and work undertaken under the aegis of the Ministry for Agriculture and Forestry. While its prominence has effectively receded, references to it continue to be found in Government documents, for example, it was referenced as recently as 2008 in the Ministry of Social Development's Social Report.

The framework also attracted commentary from a variety of academics and labour market analysts. Tipples (2004) for example provided an outline of the genesis of the framework and its incorporation into a number of government and non government publications and work streams. These included the Canterbury Development Corporation and the Mayor's Taskforce for Jobs. As he notes, it was warmly embraced by the Massey University Regional Labour Market Dynamics and Economic Participation programme in particular, as a welcome contrast to the perceived mechanistic 'human capital' model promoted by the Organisation for Economic Co-operation and Development (OECD).

It was enthusiastically received at the Labour, Employment and Work in New Zealand Conference in 2001, where it was described as having a "view of individuals as being embedded in a variety of social relations that affect their choices and aspirations"⁴. A view that encapsulated the range of reasons for why people may be unemployed or outside of the labour market was, of course, particularly timely in the context of a high levels of long term unemployment and lower labour market participation than currently. As Tipples has noted, however, the Framework was not without its critics in academic circles, although critical commentary is not evident in relevant literatures. Notwithstanding its possible critics, the framework continues to retain currency in some parts of academia: it features prominently in a recently published New Zealand public policy text-book chapter on employment policy (Shaw & Eichbaum, 2008).

After 2004 the framework fell into disuse as a policy tool within the Department of Labour, partly due to a change in Departmental leadership and a focus on a new operating model. Nonetheless, strategic documents developed by the Department subsequently, such as the Skills Strategy Discussion Document developed in 2008, can be mapped against it. The Skills Strategy document's four priorities fall across the three elements of the framework:

- *Capacity*: priorities one and four, "increasing the literacy, language and numeracy skills of the workforce" and "increasing the skills of young people in the workforce.
- *Opportunity*: priority two, "building the capability of firms to support managers and workers to better develop and utilise their skills".
- *Matching*: priority three, "enhancing the relationship between the supply of skills and the demand for them, including a focus on measuring skill acquisition and retention".

⁴ Bartley et al (2001), cited in Tipples, Rupert (2002), "Practical Uses of the Human Capability Framework – An Outsider's View of a Concept Guiding Public Policy and Research", Paper to the Tenth Labour, Employment and Work Conference, Victoria University of Wellington, 21-22 November

So what then has been the lasting influence of the framework and what is its application in today's labour market?

The period during which the Framework was at its most influential in labour market policy discussions coincided with a shift in policy attention which can be characterised as moving from the 'supply-side' to the 'demand-side' of the framework. In the 1990's and into the early 2000s, there was a significant focus on 'supply-side' and matching issues in the labour market, as government priorities centred on the need to increase labour force participation, and address concerns about low skills and lack of 'fit' between education and training and the needs of businesses. Concerns such as these underlay reform to both the education and training sector (including the establishment of the Tertiary Education Commission) and reform of the public employment service which had recently been integrated with the income support agency (creating a new Department of Work and Income in 1998).

The paradigm shift at that time was an increasing awareness of the extent to which the economy depended on having appropriately skilled – and available – staff to do work. The nature of the demand-side tended not to be a focus for government intervention. The prevailing view was that, in the main, the government should 'leave business to business', with the exception of some level of business development assistance and support for community-based enterprise (the latter tended to have a strong employment focus).

This approach was reversed in the early 2000s and government attention broadened to focus more strongly on the demand-side. This was particularly driven by international research from organisations such as the OECD which drew attention to New Zealand's dramatic slide in productivity ranking within the OECD over previous years. While acknowledging the broad drivers of productivity, officials noted the critical role of firms in generating productivity and sought to identify an appropriate role for government in boosting firm productivity levels. The Ministry of Economic Development undertook a number of studies and surveys aimed at understanding firm performance and in-firm dynamics. Similarly, Statistics New Zealand established the Business Operations Survey⁵. A cross-government workplace productivity agenda was developed, in collaboration with business and union groups.

Over this time period, significant economic and the labour market adjustments were evident. The discussion below traces some of the main features of these changes, before going on to consider where the framework fits in today's labour market.

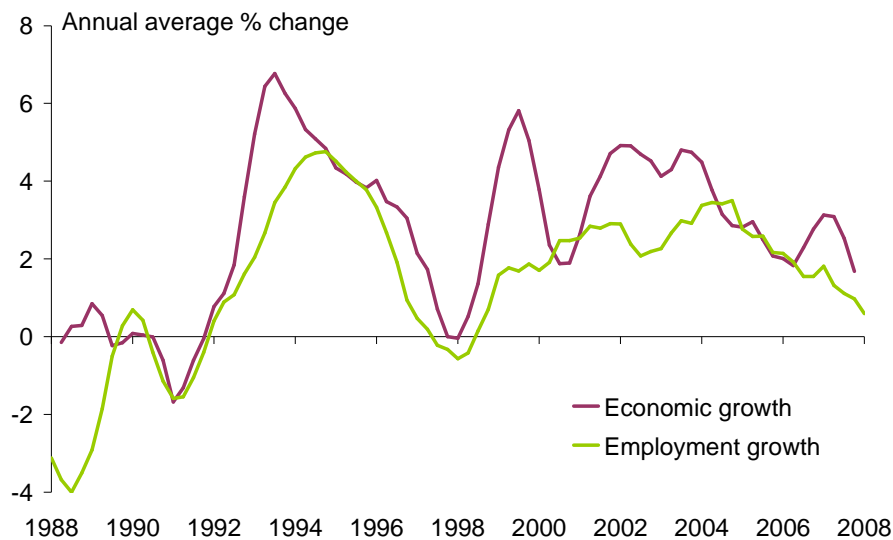
Changes in the labour market

The New Zealand labour market has changed considerably over the last decade. This is of course consistent with one of the theses of the initial framework paper, which stated that "labour market adjustment is continuous". In 1998, the economy was in recession following a strong recovery from the structural change and cyclical downturns of the 1980s and early 1990s. In 2008, the economy was again in

⁵ The survey was established with input from the Ministry of Economic Development, the Department of Labour and the Ministry of Research, Science and Technology

recession, but only after experiencing the longest expansion in around 60 years. Figure 3 below illustrates this trajectory. Economic expansion led to a significant improvement in labour market conditions from the late 1990s. This enabled public – and political – attention to broaden out beyond questions of unemployment, for instance, to focus on more qualitative issues on both the supply and demand sides.

Figure 3: Economic and employment growth



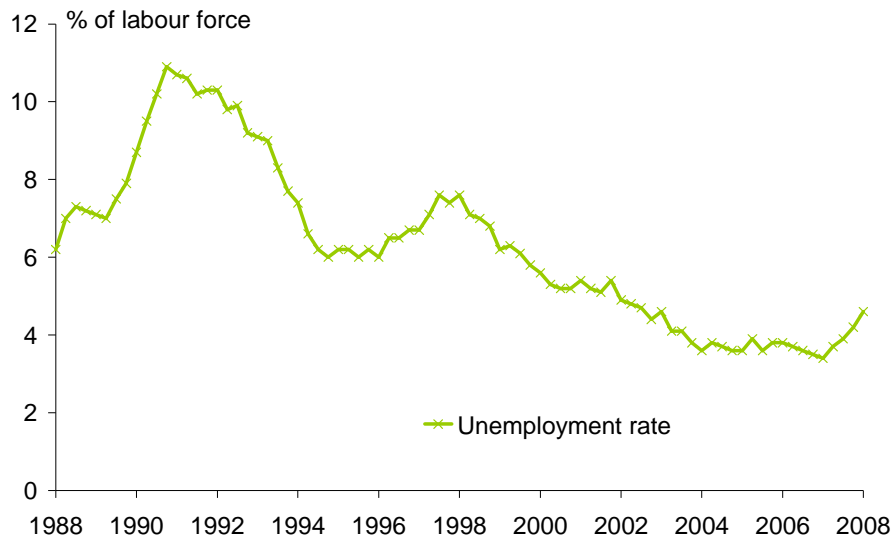
Source: Department of Labour 2009

The most significant labour market change since the framework was developed is probably the increase in jobs and accompanying fall in unemployment to historically low levels. Economic expansion led to high employment growth of 2.2% per annum on average from 1998 to 2008, which put an extra 420,000 people in work. By comparison, the rate of employment growth in the past decade averaged 1.0% per annum across the OECD.

The main source of additional workers since 1998 came from outside the labour force. The labour force participation rate (the proportion of working-age people who want to work) rose from 65.3% in 1998 to a record 68.6% in 2008 as more women and older people (those aged 55 years and over) entered or stayed in the labour force.

Over the past few years leading up to 2008, most people entering the labour force have found work as the unemployment rate fell from 7.5% in 1998 to 3.4% in late 2007, its lowest level in over 20 years and one of the lowest in the OECD (*Figure 4*). The fall in unemployment was experienced across much of the population. All 12 main regions of New Zealand had an unemployment rate below 5% in the year to September 2007, compared to 1998, when only Wellington and Nelson/Marlborough West Coast were below 6% and Northland and Bay of Plenty were above 10%. Unemployment rates also fell across ethnic groups and age groups.

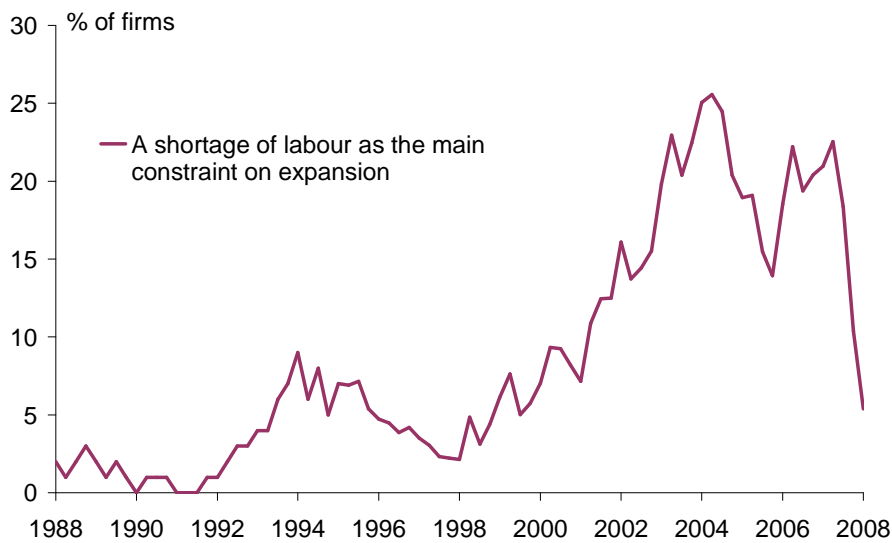
Figure 4: Unemployment rate



Source: Department of Labour 2009

Although some groups are still under-represented in the labour market (for example, Maori and Pacific people), the gains from Government initiatives aimed at getting more people into work became much smaller than in the late 1990s. The focus instead shifted towards raising the value of work (that is, raising productivity, as mentioned above) and addressing the growing problem of skill and labour shortages. At its peak, labour shortage became the main constraint for over a quarter of firms, the highest proportion since the mid-1970s (*Figure 5*). A key difference with previous upturns was that unskilled labour, not just skilled labour, became increasingly difficult for firms to find.

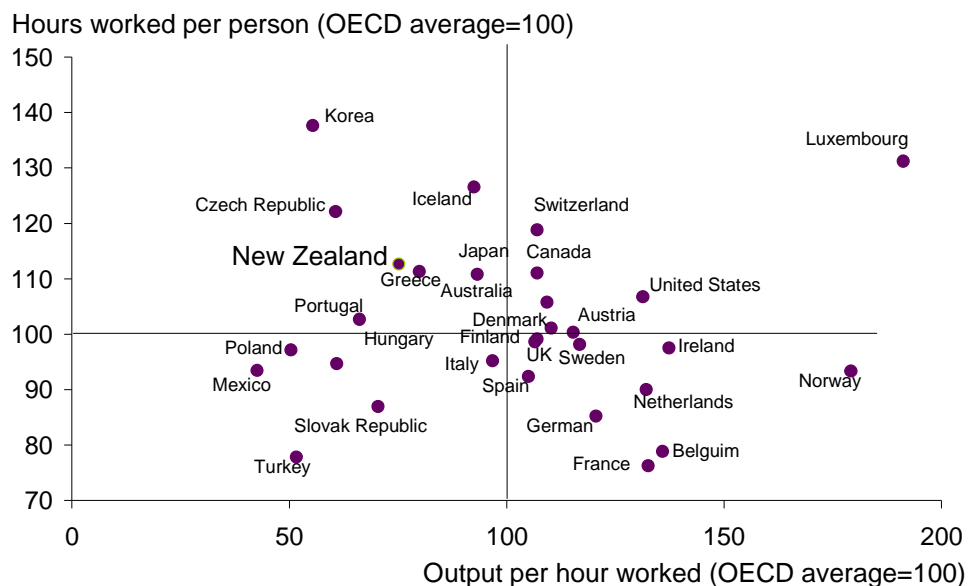
Figure 5: Skill and labour shortages



Source: Department of Labour 2009

Labour productivity is the amount of output produced per hour of worked. In New Zealand, labour productivity grew strongly coming out of the 1997/98 recession but slowed for much of the employment-led expansion of the 2000s until a rebound in 2007/08. On average, labour productivity grew by around 1.5% per annum from 1998 to 2008, slightly stronger than 1.2% per annum in the previous decade. However, it remained below that seen over the past ten years in nations such as the United Kingdom (2.3%), the United States (2.1%), and Australia (1.7%). Labour productivity is the key determinant of a country's standard of living and New Zealand's continued underperformance in this area has increased the focus on this issue relative to the late 1990s. Part of this recent underperformance has been attributed to the large increase in employment being concentrated among the lower-skilled, but New Zealand's level of labour productivity remains low relative to other developed nations, including those with similar levels of labour utilisation (*Figure 6*).

Figure 6: Labour productivity and labour utilisation across the OECD



Source: 2006 OECD data

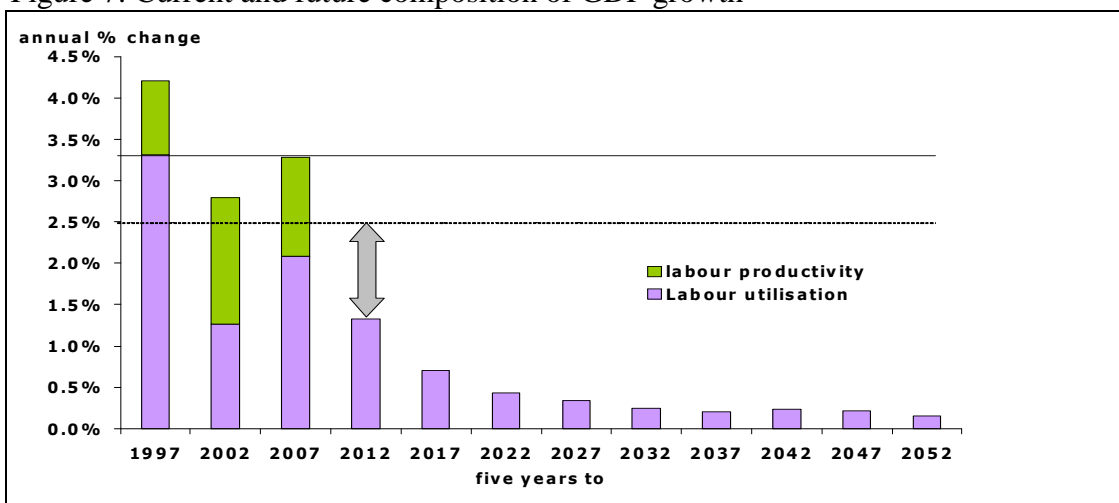
Where does the framework fit in today's labour market?

Given shifts in the labour market and the economy, and in response to the worst world recession in sixty years, the question arises: is the framework still useful? As noted above, the framework envisaged the labour market going through continuous adjustment.

Considering the economic context, it is clear we have come full circle since the framework was developed: the past decade ended the way it began, in recession. As in 1998, tight monetary conditions, drought and financial crisis overseas led New Zealand into recession in 2008. Slowing economic growth has resulted in an easing of skill and labour shortages and has seen the unemployment rate rise in the March 2009 quarter to a six year high of 5 percent, with further increases expected in the coming year. Recently we have seen some of the issues of the late 1990s beginning to return, including unemployment and underemployment.

Nevertheless, the issues of productivity and skill and labour shortages are likely to once again be prevalent in the medium-term. The ageing population and global competition for migrants will put downward pressure on labour force growth and continue to put a spotlight on the need to lift productivity growth in New Zealand. In recent years, much of our economic growth has been driven by labour utilisation (that is, more hours of work), but we cannot rely on this to continue to drive growth. If we want to achieve economic growth of 2.5%, as we did over the five years 1996 to 2001, we would need to increase labour productivity by a significant amount, shown by the arrows in Figure 7. If we want to achieve growth of 3.5%, as we did over the five years from 2001 to 2006, then we would need to increase labour productivity by even more.

Figure 7: Current and future composition of GDP growth



Source: Department of Labour (2008: 11)

The importance of raising labour productivity growth is acknowledged by the new government’s aspiration to close the income gap with Australia by 2025, which will require productivity growth to rise to around 3% per annum. This will not be an easy task. Reaching a sustained rate of over 3% would be double our recent average growth. Furthermore, it would be almost double what Australia has achieved in recent times, which will be difficult given Australia and New Zealand tend to be influenced by similar factors. Nevertheless, high labour productivity growth rates in excess of 2% have been achieved in other similar nations, including Ireland, the United Kingdom and the United States. In particular, the example of Ireland illustrates how productivity performance can turn around in a small nation, with average labour productivity growth of around 4% over the last 20 years. To do so, New Zealand would have to overcome both its small size and its distance from other major world markets.

The recent shifts in the labour market have also seen the re-emergence of some old pressure points in labour market. For example, rising unemployment and slowing economic performance have once again raised the issue of matching unemployed people into jobs and helping create the conditions for sustainable employment growth. What might be different with this part of the economic cycle is the coexistence of both old and new problems. Work undertaken by the Department has shown that some skill shortages are persisting at the same time as higher levels of unemployment. New

Zealand's ageing population demographics will also further add to labour supply pressures by dropping New Zealand's relatively high labour force participation rate.

The changed economic environment still requires a focus on a number of trends that the framework provides a useful framework to explore. New Zealand's low labour productivity growth rates will continue to require a close look at the supply side of New Zealand's workforce – both employees and employers, and the factors that drive its development and utilisation. Management and firm owner capability in particular has emerged as a critical performance issue for New Zealand's firms with important consequences for creating high performing work place cultures. The framework lays out some of the complexities of this issue: it is at once a demand-side issue and a supply-side one. On the supply-side, issues of matching capability of managers with opportunities are not of a different order than those of other workers, and the same sorts of issues affect their recruitment as those of other workers. On the demand-side, factors such as entrepreneurial attitudes, consumer preferences, social attitudes to innovation, the international environment and the business environment all have a role in shaping the capability of managers in New Zealand workplaces.

While the current concern with unemployment and job security is heightened it is not unreasonable to assume that the quality of work will remain an issue. New Zealand's strong employment growth has given many new entrants to the labour market choices and expectations that previous generations had not always enjoyed. The framework reminds us that effective matching of labour market supply with demand depends on the relative attractiveness of labour market opportunities compared with other opportunities. The high participation rates of NZ workers has meant that working lives have had to be balanced with a range of other caring and community responsibilities.

The previous policy focus on flexibility for workers has only recently shifted to create an environment that compels employers to make adjustments while retaining jobs (such as the 9 day fortnight). While economic conditions have shifted the employees' focus onto job security, recovery will once again enable a relatively scarce workforce to demand greater flexibility.

The framework does not assist much in identifying what relative emphasis should be placed on any of these issues: that is a matter for detailed policy analysis and political decision. What it does, however, is provide a coherent basis for the lines of inquiry and analysis needed to develop well-rounded government policy relevant to the labour market.

It is undeniable that the basic observations of the framework still hold: the labour market is intrinsically linked to the changing state of the economy and underlying social and demographic trends. This remains compelling from two points of view. Firstly, it argues for breadth of focus. It reminds us that, for the labour market to perform effectively, policy in a number of separate but linked areas must be coordinated. The division of Ministerial responsibilities tends to encourage public servants and individual Ministers to approach issues through a relatively narrow frame. Set against this, the lasting relevance of the framework is that it challenges us to take a more comprehensive view of presenting problems. Secondly, it acknowledges the need for constant adjustment, in response to a dynamic system,

while at the same time reminding us of the limits of policy measures that are targeted at any one element of the labour market. The framework is not a static picture but a kaleidoscope, in which elements and the relationships between them constantly change and adjust, and not all are equally easily amenable to government intervention.

From a practical point of view, the framework remains a useful tool in the policy development arena to inform the range of analytical activities such as identifying the range of parties potentially affecting, and impacting on, a given policy issue; analysing the underlying nature of a presenting problem; setting objectives; identifying and analysing options for action, and designing an implementation and evaluation path.

It can, however, be criticised on the grounds that it does not tell an obvious story about some of the more detailed dynamics within the system. This is particularly so on the demand-side. On the supply-side it clearly posits some points of influence from various factors (indicated by direction of arrows within the diagram), for example, individual attributes and family and whānau influences affect formal and informal skill acquisition processes. However, on the demand-side, while a number of important factors are identified, the framework is silent on the nature of the relationships between many of them. For example, what might be the nature of the relationship between consumer preferences, technology, regulatory environments and entrepreneurial attitudes, and how do these affect the creation of both labour market and non-labour market opportunities?

These are complex issues, and they are no doubt beyond the capacity of any simple framework diagram to capture. However, it is precisely in this area that some of our most challenging policy questions arise at present. When considering policy issues such as workplace productivity, the framework is thus perhaps less illuminating for use by the Department than it might be. For example, it provides little insight on the nature of the impact of the labour market on growth, as opposed to the impact of growth on the labour market. The framework also perhaps does not readily lend itself to analysis of demand-side 'risk management' issues such as occupational health and safety and compensation for workplace injuries through ACC.

On the supply-side, too, the framework does not draw out some issues to the degree that we might today. For example, issues such as the following might figure more prominently: the relationships between immigration and both labour market supply and demand; the influence of the nature of education supply (for example, availability and cost of training, level of government funding and student support); and the role of good quality, accessible labour market information as an influencer on capacity and matching.

The architects of the framework may not have foreseen some of the challenges of the labour market ten years later. However it is sufficiently broad to accommodate new analyses, and from that point of view it remains a valuable tool for labour market policy thinking. That breadth now needs to be supplemented by greater depth in understanding the underlying dynamics within the framework, in particular the nature of the relationships between the various factors that drive capacity, opportunity creation and the matching and rewards between them.

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