



Conference Paper

Alternative Economic Strategy



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An economy that works for everyone

Executive summary

Introduction

The motivation for this paper arises partly from the global financial crisis which illustrated the reckless and damaging conduct sanctioned by deregulated finance capitalism. Another motivation is the ongoing impact of the neoliberal model established in this country from 1984-99 and remaining significantly intact. However there is an underlying reason why an alternative economic strategy is required: the economy simply does not work for everyone. It results in massive inequalities, misery on the one hand and huge excess on the other. At the rate we are going, we will need several planets. Yet the pace of globalisation based on a relentless drive by those that own and control much of global capital seeks out the best return no matter the consequences. This is not only unfair. It is unsustainable. The economic system which creates and perpetuates such disparate outcomes for people is unworkable. This paper is intended to provoke discussion and debate. It also needs to be considered by unions alongside a separate paper on 'union change'.

Principles to stand by

This paper argues that we need an economy that works for everyone. What are the principles that should underpin such an economy? We need to measure our own policies and those of others against principles that can stand the test of time. We accept that efficiency, productivity and return on investment are vital characteristics of a functioning and effective economy. But the principles have to be about people. These principles should include:

- *Fairness*
- *Participation*
- *Security*
- *Improving living standards*
- *Sustainability.*

Where we want to go

We seek a coherent alternative to current policy principles and institutional structures which will improve the position of working people and New Zealand. We believe a new foundation must be built on three pillars:

1. Sustainable economic development
2. Decent work and a good life
3. Voice: real participation in decisions in the workplace, economy and community

We argue for a new economic framework which draws from both established and emerging approaches such as sustainable development, the “green new deal” and the Scandinavian model. We face a complex set of challenges. Whereas nation states have tried to ameliorate the sometimes brutal outcomes of domestic capitalism, in this period of globalisation, we face the challenge of addressing the huge externalities of global capitalism. This requires a new synthesis. It is not a third or fourth way. There is no label. It is more of a narrative at this stage that looks at the reality facing workers and the environment in a globalised world and argues that we will need at least the three pillars identified if we are to build a new economy based on the above principles.

Policy Proposals

This paper includes many policy suggestions. A small selection of these is highlighted in this summary:

1. Economic Development

Support is available to firms only on the basis of criteria including national priorities, employment creation, export or import-substitution potential, active worker participation, party to an industry standard employment agreement where it exists and a commitment to principles of skills development and fair remuneration throughout the firm, and progress towards pay equity. National priorities could include sectors, cross-sectoral themes such environmentally beneficial or high productivity, and national and regional infrastructure plans. Government support would be available through tax credits or injection of funds through purchase of shares.

Buy back Telecom’s physical telecommunications network to allow fair and equal access to all service providers and users. Start to buy back the electricity system by taking a controlling stake in Contact Energy and Trustpower and regulate in order to optimise it for a combination of security of supply, low cost, and reduction of environmental impacts.

Create a “human infrastructure” fund to provide long term funding certainty to tertiary education and workplace training.

Support for Māori economic development including the role of tribal and Māori urban authorities in securing a sustainable base for Māori. Ongoing support for Treaty settlements.

Encourage worker cooperatives, mutuals and trusts which return profits to the business through suspensory loans, cooperative incubator support like the business incubator model, and tax measures.

2. Financial and monetary

Closer oversight over all financial institutions, the degree of oversight in proportion to their use of leverage and systemic significance (“Too Big to Fail”). Stabilise the exchange rate through management of international capital flows and currency controls, seeking cooperation and agreements with other nations. Ensure Reserve Bank has sufficient powers to give it options to take action on the exchange rate and international capital flows. Broaden the terms of reference for monetary policy beyond inflation to include employment, living standards and other matters. Provide finance for economic development through Kiwi bonds to both finance infrastructure

and increase local equity in New Zealand firms, and a greater proportion of the New Zealand Superannuation Fund being invested locally.

3. International economic relationships

Support international moves to increase international financial regulation, support a tax on cross-border financial transactions (Tobin tax) internationally to reduce speculation and volatility, and manage international capital movements to and from New Zealand.

Work towards a “new internationalism” which recognises that many important factors require cooperation rather than a market approach, including trade and investment agreements whose rules are founded on the need to regulate and to recognise national economic development strategies and the role of the public sector, rather than founded on concepts of market access and deregulation. Controls on foreign direct investment.

4. Taxation

Provide sufficient funding for a state active in regulating the economy, providing services, redistributing income, and stabilising the economy in difficult times through an additional 45 percent tax rate on incomes above approximately three times the average wage (currently approximately \$150,000), end deductibility of rental property losses against personal income; introduce a capital gains or a land tax, subject to equity considerations: that is they should be designed to be progressive, aimed primarily at investors, exempting, for capital gains tax, a household’s primary occupied home and, for land tax, for a household’s primary occupied home, the median value of the land under urban homes. Research and Development funding through shareholding, part ownership of intellectual property or tax credits.

5. Environment

A Green New Deal integrated into economic development strategies including Green Investment Funds which have tax breaks conditional on them investing in environmentally beneficial technologies or services.

Adoption of ‘just transition’ for workers and communities affected by climate change policies such as emissions trading. This means there will on occasions be a case for assistance directed at workers to maintain security of employment and ensure no worker is disproportionately disadvantaged in new low carbon sectors rather than all assistance being based on protection of growth and jobs in current carbon intensive firms. Union involvement in decision making on such changes at all levels.

Adopt alternatives to GDP to measure progress and guide national decision making and priorities.

6. Productivity

Establish a Productivity Commission which includes support for workplace initiatives.

Address the returns to workers of productivity improvements. One option is to establish a Living Standards Review Authority reporting to a National Tripartite Social/Economic Council. Every three years it would review standards of living, social and tax policy, price levels and increases, and productivity changes. It would

hear submissions from the NZCTU and Business NZ, and initiate tripartite discussions and make recommendations and agreements on measures to address equitable distribution of incomes.

7. Employment

For those unemployed over 13 weeks, an entitlement to a Skills Investment Fund Booster package that adds to the normal level of the Skills Investment Fund support to take to new employment and provides access to individually tailored skills audits,

Adopt a policy of “Flexicurity” which provides security of employment along with sufficient flexibility to allow firms to adapt to changing circumstances. Provisions for security of employment would be funded partly from compulsory experience- and size-rated employer levies and partly from general taxation, underwritten by government. This would include:

- Maintenance of 90 percent of prior income during unemployment for up to 12 months, conditional on commitment by the worker to acquiring new skills if necessary, and job searching.
- Active labour market policies to provide support to find new jobs and assistance in moving to another region if necessary
- Financial and practical support for acquiring new skills and qualifications
- Tripartite design, governance and implementation of the programme
- Normal unemployment benefits to apply after 12 months if still unemployed.

Increase the minimum wage to \$16.87 per hour, and continue to maintain it at 66 percent of the average wage.

Encourage greater migration of permanent skilled immigrants but require employers to satisfy criteria for a “good employer”, including being a party to an industry standard employment agreement where it exists and making a commitment to principles of fair remuneration throughout the firm.

Give workers the right to require a Pay and Employment Equity assessment in workplaces. Apply the tools and policy developed over the last decade to advancing Pay and Employment Equity in both public and private sector employment.

8. Housing

In the short run, the Reserve Bank to provide low interest funding for new housing.

In the longer run, conduct a strategic assessment of major housing need in order to create a National Housing Strategy and within that strategy:

Support development of quality lower cost housing and assist those wishing to rent by

- Expanding Housing New Zealand’s available housing stock by 20 percent,
- Encouraging “inclusionary zoning” that requires developers to include to make provision for affordable housing in developments, or levy developers where they do not wish to do so, to provide a fund for affordable housing.
- Requiring each local council to insist on an affordable quota of houses in its area, some of which it provides directly.
- Reforming tenancy laws to give greater security to tenants

- Sponsoring designs for low cost, green and healthy owner-occupied housing.

Make housing affordable by

- Subsidised home lending in tailored programmes for targeted groups including low income households, key workers whose recruitment and retention is affected by housing difficulties, women, Māori, and Pacific people and other financially disadvantaged groups.
- Expansion of current shared equity and Kiwisaver house purchase schemes.

9. Retirement

An augmented Kiwisaver scheme which is enhanced both to increase saving and to include people unable to provide for their own retirement. Enhancements:

- Compulsory employer contributions of 6 percent phased in over 4 years
- Compulsory employee contribution 2 percent
- Government top-up 2 percent
- Address equity issues:
 - Beneficiaries and non-working parents to receive government contribution of 6 percent of average wage
 - Inquiry into addressing equity issues, such as those resulting from lower pay rates and lifetime incomes of women

10. Participation

Worker participation enhanced through

- Representative structures for participation at workplace level which broaden and deepen employer-union engagement.
- Industry Sector Councils which encourage and participate in sharing of good practice around productivity, skill development, industry development initiatives, and creating networks of firms
- Mechanisms for worker voice.

Increased participation in government decision making. Given high levels of labour market participation, the workplace should be seen as a location for active citizenship. All enterprises of 20 or more workers should provide access to community organisations to hold lunch-time (or other appropriate time) sessions to consult on local issues. This should include an opportunity for local councils to consult.

Increasing room for diversity and depth in the media through

- Encouragement of trust-owned “public service” newspapers and other media in which all profits are reinvested in the publication
- Funding for investigative print journalism through the equivalent of “New Zealand On Air” funding.