NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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The Covid-19 lock down edition

I very nearly didn't write this.

All month I have been thinking of angles or important things to discuss – only to find a day later – events had overtaken. Anyone remember the call to suspend the minimum wage increase?

No? Great. Keep moving.

And the other thing I would be doing normally would be graphing and analysing the data that comes out from Stats NZ in the month. But is anyone interested in a discussion of how the increase in GDP in the year to the December 19 quarter was 2.3% while at the September 19 it was 2.75%? No one? Even though it was a decline?

Ok. Moving on.

The big story in town is of the wage subsidy to help businesses be able to keep staff connected to the workplace. With the payment of $585.50 being that for paid parental leave which also has a similar aim. But unlike paid parental leave this is paid out by the employer rather than Inland Revenue.

Wage Subsidy

And in the space of 10 days or so, the *wage subsidy* has moved from - essentially - capped business support based on headcount to the government underwriting and providing an income floor for workers but administered by their employers.

That is it has moved from a best endeavours high trust model which helps employers keep on staff through additional assistance to one involving publication of company names, explicit requirements that employment law must be followed and funds paid to employees as well as acknowledgement that audit action could follow.

This change is welcome as the CTU was seeing too much abuse.

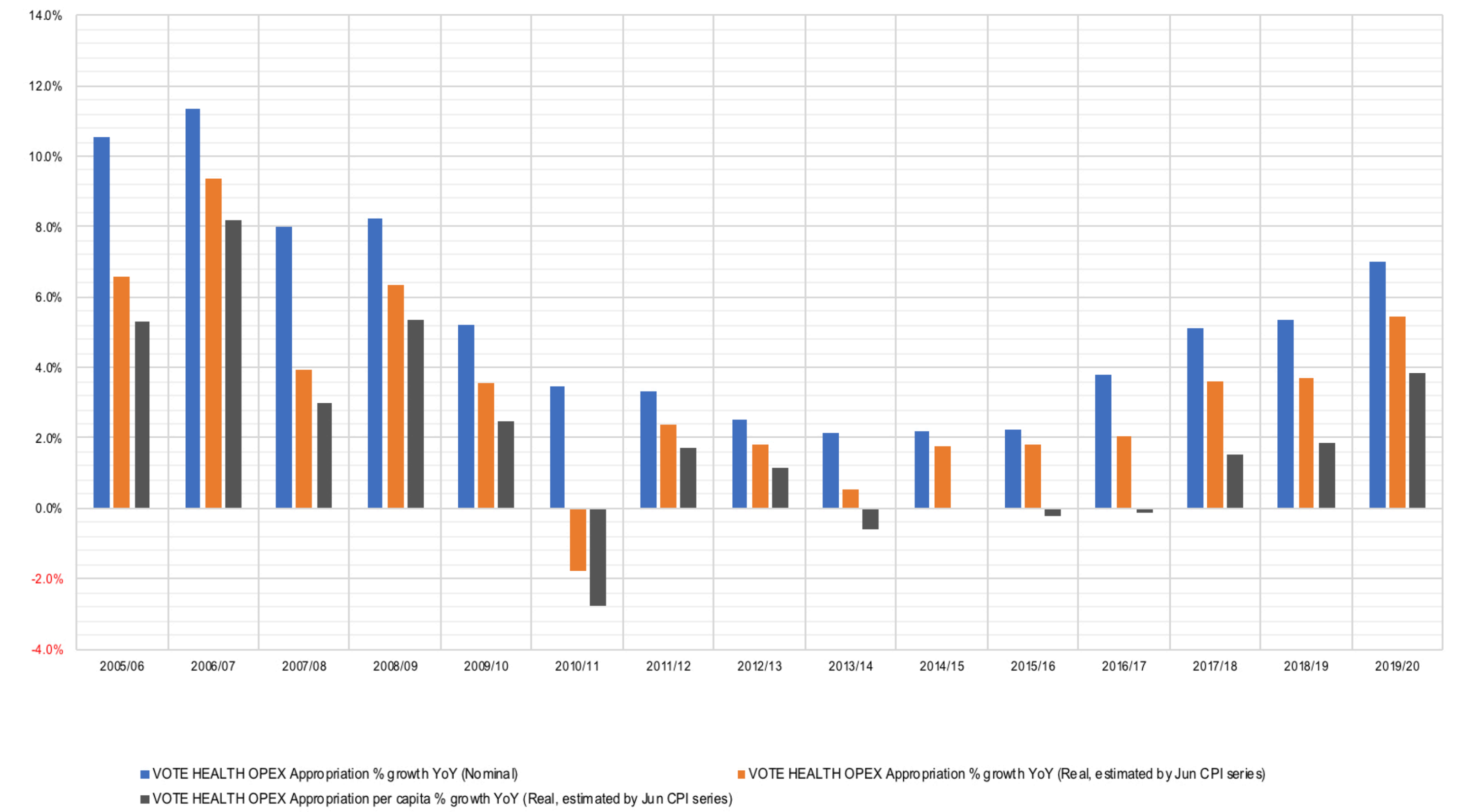
And with all dollar value caps removed - both an out of work contractor and an NZX 10 company are now eligible if they have experienced or will experience a substantial fall in revenue.

Health Spending

The other thing that was announced in the original package was an increase in health spending. Alongside a commitment – at least in the lock-up – by the Minister of Finance to spend what was necessary. This is also extremely welcome as past research by the CTU and the Association of Salaried Medical Specialists has found that the Health System is $2.5 billion down compared to 2010[1].

And while not quite the same analysis (for example it doesn't include the increasing costs of an aging population) I recently received this graph from the Ministry of Health shows how funding is only recently becoming positive in terms of CPI and population growth.

Figure 1: Vote Health operation expenditure, annual growth YoY by financial year



[1] In our post-Budget report last year:

"We estimate an accumulated funding shortfall in annual spending power of $1.6 billion between the 2009/10 and 2019/20 financial years. It means that in the next Budget the Government will need to find over $2.5 billion extra for 2020/21 if it wishes to restore the value of funding to the 2009/10 levels."

Rents

While many indicators are quarterly - GDP, Labour Market Statistics, and Consumer Price Index – rent and food data[2] is monthly.

Rents increased by 0.3% for the month of February 2020 and 3.4% since February 2019. All consistent with how the market has been operating for (at least) the last 10 years.

But here's the thing. Rents need to start coming down. Now.

And unless the market has blocks – such as property managers preventing willing landlords from dropping rents - in which case the Government will need to step in – prices should start falling.

Here's why:

- Supply is increasing as AirBnB owners lose bookings from foreign tourists.
- Demand is falling as the levels of foreign students and working holiday makers reduce with the borders closed.
- Tenants' ability to pay is falling with a substantial % of the workforce now on $585.50; unemployment benefits if single; and potentially nothing if partnered.

It is true that many leases are fixed term. But even then, as tenants come under financial stress, much as Richard Wagstaff keeps encouraging businesses and staff to work things out – so should landlords and tenants.

I will be following the rent indicators with even more interest than previously. Just to see what the timeframes are for – what should be a very straightforward – market response.

Quantitative easing

Oh, how a month is a long time in pandemics.

Only last month I was looking at *maximum sustainable employment* and how the Reserve Bank had not dropped the OCR as 111,000 people in no paid work and 90,000 people in not enough paid work – was full employment.

Now the OCR has been cut to 0.25% and the Reserve Bank has $30 billion for quantitative easing.

Quantitative easing is what central banks do when they have hit a near zero interest rate. It involves them buying bonds in the market. By buying the bonds it puts extra cash into the hands of the sellers, thereby increasing the money supply and therefore reducing the market price for money ie interest.

[2] Given the reports of supermarket price gouging I will pay particular interest to the food index next month.

Another way of looking at it is the additional demand for the bonds increases their price and given they have a fixed interest rate – this means that the yields for bonds reduce.

And in theory all this reducing of interest rates means greater incentives to invest in productive assets – or at least not disinvest. But it can also incentivise borrowing to invest in higher yield assets which historically has been the share market or the housing market.

Now *this time it might* (actually) *be different* as there are so many other not -normal countervailing factors: closed borders, lockdowns and a disease that can kill significant numbers of the population. At least for the short and medium term.

But regardless, quantitative easing – unless there is an increased supply of bonds – will make bond holders richer. Which doesn't feel right at a time of increasing unemployment, business failure and rising government debt.

The way through this is for the government to raise bonds to finance the necessary stabilisation and ultimate recovery and then the Reserve Bank buys them. This is also known as QE for people.

An alternative is a windfall tax on bond holders[3].

Previously I would only have thought such things or mentioned it in very safe company. But then who would have thought the government in 2 weeks would spend more on business and wage support than KiwiBuild, the Provincial Growth Fund or Treaty settlements put together.

There are many other specific issues I could discuss: the merits of universal basic income; the need to individualise our benefit system or the climate benefits of the lockdown. All meritorious topics but what is filling my head – when I get capacity from the Policy Director part of my role dealing with the immediate crisis – is what's next when we come out of lockdown.

We cannot return to a version of the status quo – in the way we did following the Global Financial Crisis. The recovery must benefit all of us – not just those with capital or secure paid work.

When we are unlocked - the regeneration of the New Zealand economy

There are a number of questions I have been mulling on since taking this role – 2 months ago in another universe:

- Why is it that government assistance – Working for Families – is needed for people in paid work to keep their families out of hardship? And then they lose between 25 and 62%[4] on top of taxation for any additional $ earned.

[3] It is true that the gain will already be taxable at normal rates.
[4] 25c Working for Families, 25c accommodation supplement, 12c student loan on incomes over $55,000.

- Why is it that in the best of times 111,000 with no paid work – is full employment?

- Why when full employment involves so many people needing state assistance – is the assistance so low?

- Why are we a low wage, low productivity economy? When New Zealanders go overseas and thrive in a way they can't here.

- Why have our houses earned us more than our jobs? Causing wealth to be transferred from our children's generation to ours.

- Why do we tax all labour in the PAYE system fully and no quarter given but taxing capital or labour from closely held companies is much more nuanced?

The CTU prescription, which I fully support, includes:

Industry transformation. A tripartite system of business, unions and government working through the challenges our country faces together with a focus on us becoming a high wage high productivity country. Government help is going to go on for some time and it is important that as the representative of everyone in New Zealand – it makes sure that there is no return to the status quo.

Active Labour Market – supporting transitions where *Mana in Mahi* is but a tiny example. In fact, the whole $585/week thing could be seen as the beginnings of transitional support to displaced workers. Whether it ultimately becomes specific social insurance and/or an enhanced welfare system, what is very clear is the longer a person is disconnected from paid work – the harder it is to return at the same level and income they left.

Seriously commit to housing our people. It isn't a 'nice to have'. Given our overcrowding, without the lockdown, CoVID 19 would have ripped through the poorest sections in the way that all other infectious diseases currently do. It is time to fully treat 'living rent' as the goal. No one should have to work more than 12 hours in a 40-hour week to house themselves and their families. This also dovetails nicely with the last two points. A highly skilled New Zealand workforce building houses with products manufactured in New Zealand. Why not?

Tax system that is actually fair and balanced. Where everyone pays tax according to their ability to pay. And this means:

- taxing capital more. It could be taxing more capital gains, a land tax, risk free rate of return on residential property or a wealth tax. Or a combination.
- putting equity and fairness, rather than growth or compliance and administration costs, as its primary focus.
- making the progressive tax scale apply to everyone not just those on PAYE. And then put top personal tax rate up.

And yes, it might just mean an inheritance tax – which also means gift duty – as a back stop for any under taxation during someone's life. Which also means - thinking the unthinkable in tax terms - being much less protective of the concept of the Trust.

Because what has become starkly clear during this period – is the people who are actually valuable in our society are the essential workers, and the carers both paid and unpaid. And our economy needs rebalancing towards them.

The best time to have done this was thirty years ago. The next best time is now.

Kia Kaha

Andrea

The NZIER consensus forecast was released on 16 March 2020[5].

Annual Percentage Change (March Year)	2019/20	2020/21	2021/22	2022/23
GDP	1.92	2.06	2.9	2.5
CPI	2.2	1.8	2.0	1.9
Private Sector average hourly wage	3.4	3.0	3.3	3.0
Employment	1.3	1.3	1.8	1.5
Unemployment rate (% of labour force)	4.2	4.4	4.3	4.2

[5] I have attached this for completeness as it wouldn't be a CTU Economic Bulletin without it. But 16 March 2020 is now prehistory.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin218. For further information contact Andrea Black.