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Te Kauae Kaimahi

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Comment
Tough times lie ahead but there is considerable uncertainty about the extent of the impact on the real economy from the global financial crisis. In the midst of this uncertainty we have an election! For workers this highlights the differences between the political parties in terms of worker rights, employment, and security. There have been welcome similarities emerging – for instance on relief for workers made redundant. But when it comes to the crunch – who is it that actually believes in enhancing and protecting workers' incomes, and work rights?

To make that assessment we need to look at the past, the present and the future.

The past…….in the 1990s the National-led Government within days of being elected scrapped the Employment Equity Act 1990 preventing any further progress on claims based on equal pay for work of equal value. Then the Employment Contracts Act launched a full scale attack on worker rights resulting in major losses of pay and conditions in subsequent years. Before the ECA, around 720,000 workers had protection from awards or collective agreements; by 1996 that number had dropped to 350,000. In 1991, National cut social spending by one third. It savagely cut the rates of all benefits, including the invalids and sickness benefits. The harshest cuts were for the unemployed. The unemployment benefit was cut by 25% for young people, 20% for young sickness beneficiaries, and 17% for solo parents. They abolished the family benefit and made workers ineligible for the unemployment benefit for a stand down period of a massive six months. The 1992 benefit cuts were worth approximately $1.3 billion – about the same size of each of the tax cuts handed out in 1996 and 1998. For every dollar of the 1996 and 1998 tax cuts only 29 cents went to low and middle income families.

Still in the past….unemployment peaked at 11.1 percent in 1992 and still averaged 6.8 percent in1999 with over 161,000 people on the unemployment benefit. Industry trainee numbers were as low as 14,904 by 1993. Continuing the policies of Rogernomics we saw that from 1984 to 1998 the top 10% of households increased income by 43% and the bottom 50% of households decreased income by 14%. There were increasing signs of poverty and hardship. For instance, foodbanks in Auckland alone grew from 16 in 1990 to 130 in 1994. By then there were 365 foodbanks operating across the country. ACC work cover was privatised, and the minimum wage rose by only 14 percent in the entire 1990s and was frozen for several years.

The present….since 1999 we have seen Labour-led Governments working first with the Alliance and then with the Greens, Progressives, Māori Party, and to some extent NZ First and United Future scrap the Employment Contracts Act; introduce time and a half and a day in lieu for work on a public holiday; four weeks annual leave; 14 weeks paid parental leave; improve health and safety laws; the stand down period cut to 2 weeks; nationalise ACC again; 20 hours free early childhood education; boost state sector pay; increase the minimum wage by 71 percent, increase industry training numbers to 133,264 by March 2008 and over 16,000 modern apprentices; bring in KiwiSaver; unemployment is 3.9 percent with around 22,000 on unemployment benefit; boost family tax credits; lift the maximum payment to workers when their firm is insolvent to over $16,000 and including redundancy compensation as well as reducing tax on redundancy compensation; legislate for meal breaks, and; introduce a right to request flexible working hours. And this is only the short version of what is a long list. National opposed most of these measures.

The future…National will 'review' holiday pay and have targeted relevant daily pay rates when off work due to sickness; they will remove the automatic right of appeal against unfair dismissal for workers in small firms for the first 90 days of employment; they will allow employment contracts to be offered with just 3 weeks annual leave; they will privatise parts of ACC; substantially reduce the benefits of KiwiSaver, and; introduce tax cuts that give huge gains to those on $500,000 a year but actually increase tax paid by those on $20,000 a year. Labour will legislate to provide greater protections for casual workers; increase the minimum wage annually by at least CPI or the movement in the average wage whichever is higher; support minimum redundancy compensation; pay a retraining allowance and job search allowance, and; increase industry training so that 10 percent of workers are participating in any one year.

Of course this is an oversimplified analysis. Wages remain 28 percent below Australia despite the gap having closed slightly since 1999. Labour will not commit to a $15 minimum wage and have put to one side planned policy announcements on paid parental leave. And the National Party has promised to move forward on infrastructure and also has released their own package to assist some workers made redundant. We have today acknowledged that their package picks up on an issue we, and others, have raised about the impact of losing the in-work tax credit when made redundant. Combining both the Labour and National packages would be the best outcome for workers.

Unionised workers support a range of political parties. Surveys have shown a proportion support National and some even vote for ACT. That is their choice. But our role is to set out clearly based on the evidence and the policies an analysis that can help people assess who they think will make up a Parliament of women and men who will each day ask themselves "How can I make things better for workers and their families?" We think an analysis of the past, present and future speaks volumes on that score…but each unionised worker has to weigh these considerations alongside other issues on their mind. Like everyone else, we have to wait and see what happens on 8th November!

Meanwhile, the fallout from the global financial crisis is now spreading to the real economy. The CTU released a discussion paper this week called *Short Term Stimulus for Long Term Gain* with a list of suggestions of what we could do to respond to the crisis. This focussed on investments in infrastructure and skills, changes to provisional tax and depreciation to assist firms, and support for workers affected. We also said that a wholesale bank deposit guarantee if it proceeds must require a commitment from banks to participate in a review of bank lending practices.

I was surprised to see that Business NZ claimed yesterday that this “crisis was not caused by a failure of markets or a failure of capitalism. Instead, it was caused by inappropriate interventions by governments and central banks.” This is an extraordinary statement. If this is not an example of market failure in the finance sector then I don’t know what is!

As we said yesterday, the NZ Government “should support proposals for necessary regulation. But it needs to go beyond this and address the role of governments, the need for international supervision that can be flexible enough to address new risks as well as models that can address social, environmental and cultural needs. It should reject the model that is based solely on maximising shareholder wealth.”

It is not just a matter of designing regulations that can stop crazy levels of leverage and deceptive derivatives. There is a need for global supervision of the finance markets so that such distortions – in whatever new form they take – can be addressed. For instance, how can credit default swaps (counterparty insurance against financial product or institution failure and interest rate changes) grow from virtually zero in 2000 to be worth over $100 trillion in 2007? The first priority is to address the real economy effects of this crisis. But New Zealand should also be a voice for global financial market reform.

Consensus forecasts[1] published by NZIER

The consensus forecasts were updated in September 2008.

March Year % change	**2009**	**2010**	**2011**
GDP	0.2	2.1	3.1
CPI	4.2	2.8	2.7
Wages (QES)	5.1	4.0	3.7
Employment	0.4	0.6	1.4
Unemployment	4.4	4.9	4.8

Economic Snapshot

Consumer prices rose 1.5 percent in the September 2008 quarter, and were up by 5.1 percent annually, the highest annual increase since the June 1990 quarter. The next CPI update is on 20 January 2009. Food prices rose 0.6 percent in September 2008, and increased by 10.8 percent over the past 12 months. Unemployment is at 3.9 percent. Maori unemployment is 7.1 percent and Pacific peoples’ unemployment is at 6.5 percent, compared with 2.8 percent for European/Pakeha. The minimum wage is $12.00 an hour and $9.60 for new entrants aged 16 or 17 for the first 3 months or 200 hours whichever ends first. Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for June 2008, were up annually by 5.3 percent (5.4 percent in the private sector and 4.8 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $23.63 ($21.96 in the private sector and $30.58 in the public sector). The female rate of pay is $22.23 which is 87.6 percent of the male wage at $25.38. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.5 percent in the June 2008 year (3.5 percent in the private sector and 3.7 percent in the public sector). However for workers who got an increase in the last year, the median increase was 4.1 percent and the average increase was 5.8 percent. The next update of wages data is on 3rd November, 2008. Economic growth decreased by 0.2 percent in the June 2008 quarter following a 0.3 percent decline in the March 2008 quarter. On an annual basis, the economy grew by 2.6 percent over the year to June 2008. The next GDP

[1] The consensus is made up of the average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand and Treasury. Because the consensus forecasts are done only every 3 months, some of the more recent forecasts will be more accurate.

update is on 23rd December. On 23rd October, the Official Cash Rate (OCR) was reduced from 7.5 percent to 6.5 percent.

Consumers Price Index

The Consumers Price Index rose by 1.5 percent in the September 2008 quarter and by 5.1 percent in the year to September 2008. Although this rate is undeniably high, it is comparable with the inflation rates in the United States (4.9 percent), Australia (5.0 percent) and the United Kingdom (5.2 percent) in the year to September 2008. The transport group made the most significant contribution to the annual increase, rising 11.3 percent. Higher prices for petrol (up 29.3 percent) accounted for just over a quarter of the 5.1 percent increase in the CPI. If petrol prices had remained unchanged from the September 2007 quarter to the September 2008 quarter, the CPI would have risen 3.7 percent.

Food Prices

Food prices rose 0.6 percent in the month of September, and were up 10.8 percent in the year to September 2008. This is the largest ever increase (if you leave out April 1990, which was an aberration due to the introduction of GST). Over the year, grocery prices rose 12.8 percent (including a 61.6 percent rise in the cost of cheddar cheese, a 16.5 percent rise in bread, and a 12.6 percent rise in the cost of milk), fruit and vegetable prices rose 17.9 percent, and meat poultry and fish rose 8.8 percent.

NZ Income Survey

The annual New Zealand Income Survey released this month shows that the median weekly income for the June 2008 quarter was $537, up 3.5 percent from the June 2007 median of $519. Despite the increase, this is actually the lowest annual increase since June 2003, and compares with a 7.0 percent change from June 2006 to June 2007. In the year to June 2008, the median weekly income for women rose 5.3 percent to $413 and by 2.3 percent for men, to $690. Whole of population median hourly earnings were $18.75 for the June 2008 quarter, with $20.00 for men, and $17.50 for women. Comparing female earnings with male earnings, the ratio of median hourly earnings was 87.5 percent – a small decrease since the June 2007 quarter.

Government Accounts

Financial statements for the year ended 30th June 2008 were released by Treasury on 6th October. These figures show that the OBEGAL (Operating Balance Excluding Gains and Losses) reached a surplus of $5.64 billion, $410 million higher than forecast, mainly as a result of a forecasting error in the Budget. At June 30, 2008, gross Crown debt stood equal to 17.4 percent of GDP, down from 18.2 percent of GDP 12 months earlier. The New Zealand Super Fund recorded a deficit of $881 million, and this was attributed to the international downturn in equity markets.

Pre-election Economic and Fiscal Update (PREFU)

The Treasury released the PREFU in the first week of October. As predicted in the previous bulletin, this was always going to be ugly. A combination of lower tax revenue, higher pay-out for benefits, greater uptake than previously forecast for free early childhood education and KiwiSaver and a higher cost of debt servicing adds up to around $2.75 billion a year impact over the next 5 years. This has resulted in a cash deficit of $5.9 billion for 2009 rising to a cash deficit of $6.8 billion in 2012. The 4-5 months between forecasting periods for Budget 2008 and the PREFU resulted in a revised OBEGAL for 2009/10 from $1 billion to -$1.7 billion. It will be worse by now. And the forecast for gross debt was that it will rise to 17.4 percent by June 2009, then up to 22 percent by 2011. But we have to remember how Treasury do their forecasts. In the December 2002 year GDP rose by 5.1 percent whereas Treasury forecasts have growth peaking at 3.4 percent then dropping to 2.5 percent. This is normal practice and has meant that revenue surprised on the upside in the past. This is why Michael Cullen has often been in the position of having a larger than forecast surplus. The concern now is what the post-election update on the fiscal situation will look like. As we have stated elsewhere, it makes sense to expand on the capital side while being careful on the operating side of the accounts. But an austere approach could deepen and lengthen the recession.

Tax cuts

Tax cuts arrived on 1st October, introducing a new bottom tax rate of 12.5 percent (on incomes up to $14,000), then 21 percent for income up to $40,000, 33 percent on income up to $70,000 and then 39 percent on income above that. The tax cuts are worth up to $12 a week for someone earning up to $30,000 a year, rising to $28 for someone earning more than $70,000. Further tax cuts are legislated for 2010 and 2011.

Work Stoppages

30 work stoppages ended in the year to June 2008, consisting of 23 complete strikes, five partial strikes and two lockouts. There were 6 stoppages in the manufacturing sector, 5 in transport and storage, 4 in health and community services, and all other industries made up the remaining 15.

Number of businesses

Statistics NZ report that as at February 2008, provisionally there were 471,000 businesses operating in New Zealand. This number is 1.5 percent higher compared with the number of businesses operating at February 2007, with rental, hiring and real estate services continuing to provide the largest proportion (20 percent). Fifty-six thousand businesses started operation in the February 2008 year, representing 12 percent of the total number of businesses in New Zealand. Three-quarters of New Zealand businesses were located in the North Island, with 31 percent in the Auckland region. Ninety-seven percent of businesses in New Zealand had fewer than 20 employees, but in total this group accounted for less than a third of all employees.

Trade

The monthly trade balance was a $1.18 billion deficit. The annual deficit was $4.9 billion. Lower than expected dairy exports – in both price and volume terms – were a key contributor to the shortfall. Merchandise goods exported in September were still valued at 8 percent above a year ago but this is slower than the 35 percent growth for the August year. However imports continued to expand in the September year – up 24 percent. The BNZ noted that our export growth over the past twelve months has been largely dependent on Australia and the emerging Asian markets. Exports to Australia grew 34% in the year to September, for instance, while annual export growth to Indonesia, Malaysia, Singapore and Thailand all exceeded 50%. The worry now is what lies ahead as a result of the fallout from the global financial crisis.

Retail sales

Retail sales increased 0.4 percent in August 2008, with sales in 15 of the 24 sub groups higher in August 2008 than in July 2008. The biggest rises were in supermarket and grocery stores, up 1.2 percent, and department stores, up 2.5 percent. The vehicle related industries felt the biggest fall, down 3.3 percent, and when this group is excluded, the remaining retail group rose 0.8 percent. The total retail sales trend has been flat since December 2007.

Housing and Property
Quotable Value report a 5.8 percent decline in national property values in the year ending September 2008, with the average sale price for September 2008 sitting at $379,854, up slightly on the $393,370 average of last month. REINZ figures from September remain broadly the same as those from August, with the median remaining at $330,000. The Wizard Home Loans Affordability report released in October has predicted that the tax cuts of October 1st and the OCR reduction will improve home affordability, which they claim is the best it's been in two years. The report shows that it took 71.4 percent of the median take-home pay to service a mortgage on a median house in September, down from the 73.6 percent recorded in August. But what this disguises is the rising prospect of people facing negative equity. Anyone who has borrowed more than 80 percent of the purchase price of their house could be facing difficulties in this regard. It is estimated that around 130,000 people are in this situation. House prices rose by 39 percent in the 3 years ending in 2007. Household debt as a proportion of annual household income is 160 per cent compared with 60 percent in 1990. Banks need to stand by their clients through this period so that those in a negative equity situation can sit tight until house prices improve and as repayments come down via lower interest rates. Meanwhile, building consents for the month of September 2008 show that the number of new housing units has fallen 41 percent since mid 2007, and is at its lowest level since January 1983. There were 1,635 new housing units authorised in September 2008.

Migration
In the year ended September 2008, there were 86,700 permanent and long-term arrivals, up 3,700 (4 percent) from the September 2007 year. Over the same period, there were 82,300 departures, up 7,600 (10 percent). Net migration was 4,400 in the September 2008 year, down from 8,300 in the September 2007 year and is the lowest since the October 2001 year. In the year to September 2008, there was a net inflow of 7,600 migrants from the United Kingdom, 5,000 from India, 3,700 from the Philippines, 2,700 from Fiji and South Africa and 2,600 from China. The outflow of New Zealanders to Australia was 33,900 in the year to September 2008, the highest peak on record. Recent Australian statistics have also shown larger than average emigration figures, and although New Zealand takes the greatest share of the almost 77,000 permanent departures from Australia (at 18.4 percent), the big picture remains the same, in which more than twice as many Kiwis moved to Australia as Australians moved to New Zealand.

ILO World of Work Report 2008
A new study released by the International Labour Organization (ILO) reports that despite strong employment growth since the 1990's, income inequality has actually grown in most countries, and it warns that the cost of the current financial crisis will most likely befall those who never benefitted from the global economic expansions to begin with. Two thirds of countries in the survey experienced an increase in income inequality over the period 1990-2005, and in 70 percent of countries, the income gap between the top and bottom 10 percent of wage earners grew. The ILO found that in countries with unregulated financial systems, workers and their families became increasingly indebted in order to fund housing investment and consumption. The costs of this arrangement are now blatantly evident.

OECD Report *Growing Unequal*
A major report from the OECD called *Growing Unequal* emphasised that education, increasing employment, boosting family income of those in work, and direct measures to tackle child poverty are the best policies to address inequities. The Report also highlights how sensible investments in child care, parenting support and

in promoting flexible employment can provide vital support for mothers who choose remain in paid work. The report shows that on average the income of the richest 10 % of citizens is almost nine times higher than that of the poorest. However, in the Nordic countries, in Denmark, Sweden and Finland the gap is much smaller (5-6 times) compared with USA at 16 times. For New Zealand, it shows that there was a significant increase in income inequality in NZ from mid-1980s to mid-1990s and that from the mid-1980s to mid-2000s there has been a significant increase in income poverty – measured as below the threshold of half of median income. While this has improved in New Zealand since 2005 (the final year of data used in the report), it shows how deeply embedded the inequalities and hardship that developed in the 1980s and 90s have become.

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