Alternative Economic Strategy

Tetahi Atu Ōhanga Rautaki

An economy that works for everyone

NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Introduction

People are the heart of the real economy. People work to produce the goods and services. We innovate, save and invest. It is for people that the economy should work to provide our needs. It should enable us to create better lives in terms of our welfare and happiness as individuals, community and wider society.

We want a society that is fairer, that tolerates neither poverty nor the human and economic costs of high inequality of wealth and income, where people are no longer economically disadvantaged by being women, Māori or Pasefika, and where diversity is valued.

We deserve improving living standards through decent wages, quality public services, enjoyable leisure, and an environment we can be proud of. Just as important is economic security without the constant threat of unemployment, booms and busts. We need to be able to look after our children and look forward to retirement while maintaining a dignified standard of living. We must protect the needs of future generations in ways that are economically, environmentally, and socially sustainable.

We strive for a democracy that gives people an active voice in decision making at work and in society, that values collectivism, solidarity, and the role of unions, and that recognises the importance of Te Tiriti o Waitangi. Internationally we welcome greater interaction between peoples, but in ways that respect different national objectives and preserve the power of elected governments to decide how they will achieve them.

The New Zealand economy has failed to do this in crucial ways.

Workers are not receiving the benefits of economic growth in their wages.

Poverty is blighting a society that produces enough for everyone but fails to share it fairly.

The economy is failing to thrive and is badly unbalanced.

The ever more visible limits to the Earth's resources and the misuse of our natural resources highlighted by global climate change are unsustainable.

And the economy fails to make best use of the skills and experience of its workforce by excluding most of them from meaningful participation in the decisions that shape their work, industry and economy.

Capitalism has never been fair, nor has it cared for the environment. But under the neoliberal policies followed in New Zealand for the last quarter of a century not only have these conditions got worse but the policies have failed in their own terms. Those policies are rooted in the idea that less government is better government and that "the market" if left to itself will lead to faster economic growth and better outcomes for society. New Zealand has had relatively slow growth rates and has failed to keep up with the rest of the world. Policies have enriched a small number of people, and have accelerated the migration of New Zealanders overseas. The economy has growing imbalances of household and international debt, of investment based on speculation rather than production, and of interest and exchange rates at levels that worsen rather than resolve these problems.

New Zealand is not unique. Neoliberalism has failed internationally. The Global Financial Crisis has damaged the lives of hundreds of millions of blameless workers, farmers, beneficiaries, and retired people around the world. It is but the latest example of the instability, recklessness, waste and enormous imbalances of power and wealth that neoliberalism has cultivated. Internationally, economic growth rates have been lower in the decades since 1980 in which neoliberal policies have been dominant. Many countries that have ignored neoliberal advice have prospered and those that adopted it enthusiastically have been among the worst hit.

New Zealand escaped the worst of the crisis more by good luck than good management. Such crises have hurt New Zealand before and will do so again. Meanwhile the inequities and failure of the policies continue to hold back New Zealand's economic and social development day by day.

The background paper, created in the development of this Alternative Economic Strategy, documents these trends. It is appended to this document.

We do not believe these unsustainable and unconscionable trends are necessary, nor do they reflect what is good in New Zealand. New Zealanders believe deeply in the "fair go" and, in recent years, have shown our increasing willingness to acknowledge Māori history, culture, and rights and address their grievances. We care about our environment, and have a growing sense of national identity and independence. We have had among the highest participation rates of voters in elections. We pride ourselves on being innovators both technically and socially. We were the first to give women the right to vote and early adopters of an effective welfare state.

Economic growth, real wage levels, unemployment and distribution of the benefits of the economy's production have all been markedly better in the past, particularly between the end of the Second World War and the 1970s. For many years, New Zealand was one of the highest income countries in the world, and one of the most attractive countries to live in. We look back not to glorify those years. They were far from perfect with social intolerance, suppressed Māori grievances, and inequality for women. But they do show that New Zealand can do much better economically.

Indeed, the world economy did much better during those years, with international financial crises relatively rare and faster economic growth. International agreements to regulate capital movements and manage exchange rates, which allowed a variety of strategies for economic development, were effective in supporting development which focused on production rather than financial manipulation.

It was the growth of a finance sector far beyond the needs of the real economy that encouraged and inspired neoliberal ideology, along with the powerful economic forces of corporate globalisation which demanded the increasing deregulation and undermining of the social functions of government, which have been so damaging. They said "leave us alone and the world will be a better place". In fact the financial sector enriched itself at the expense of the rest of the economy, taking absurd risks, too often behaving unethically and criminally, harming hundreds of millions of hard working people and causing huge damage to the real economy which blameless workers will be left to pay for in lost income and taxes.

In New Zealand these policies

- stripped away collective employment and union rights so that workers' wages have fallen behind their increasing productivity and workers are increasingly forced into vulnerable temporary or contractor jobs;
- privatised swathes of services and assets whose new owners neglected infrastructural investment, failed to create new infrastructure such as broadband, and ignored needed services such as community banking;
- slashed benefits to poverty levels, especially affecting families;
- hamstrung social and economic use of the monetary system by limiting regulation to the control of inflation through interest rates, hindering development of the real economy;
- grew banks that accelerated New Zealand's international indebtedness and the housing price bubble, and a non-banking sector riddled with instability and fraud; and
- entered international trade and investment agreements which removed much of our ability to manage our international economic relationships and made many of these actions difficult or impossible to reverse.

Despite the propaganda, New Zealand's economic growth and international competitiveness have stagnated.

This Strategy is a response to these failed policies.

Principles to stand by

We need to measure our own policies and those of others against principles that can stand the test of time.

Fairness

Fairness includes reducing the high and damaging levels of inequality that neoliberalism has encouraged; fairness at work; working to ensure women, Māori and Pacific peoples are no longer disadvantaged in New Zealand; and valuing a diversity of cultures, ethnicity, and sexual orientation, which add a richness of viewpoints and experience to society.

Participation

Participation includes an active voice in our workplaces and industries, ensuring workers' knowledge and skills help develop productive and dignified work; an active voice in our society beyond one vote every three years; and active recognition of the partnership between Māori and the Crown founded in Te Tiriti o Waitangi.

Security

Society can and should shield individuals from the worst of booms and slumps, and assist them through difficult times in their lives. A spirit of collectivism and solidarity is important for a stable society. The State plays an irreplaceable role in setting policies, stabilising the economy in times of crisis, providing security of income to individuals, and providing universal services. Security includes security of employment and full employment; security of income when we suffer misfortune, and when we have children or retire; and the role of unions in maintaining incomes, protecting jobs and advocating for better social conditions.

Improving living standards

Improving living standards is about incomes, but it is also about reducing inequality, ensuring no-one has to live in poverty, and the many non-wage aspects of living which are essential to our quality of life. These include the social wage – the services, benefits and assurances provide by the state; leisure; and the quality of our environment.

Sustainability

Sustainability is meeting the needs of the present without compromising the ability of future generations to meet their needs. It includes the environment – avoiding and reversing pollution, long term damage such as climate change, and over-consumption of finite resources; the economy – reversing high international liabilities, raising sufficient revenue in the medium term to pay for quality government services, sufficient investment for the economy to replace itself and develop, and incomes high enough to avoid skills and population loss; and society and culture – valuing our own history, media, languages, music, drama, literature and sports which help people feel they belong here.

Sovereignty

These principles apply not only in our own country, but also in how we work internationally. Inter-governmental organisations and legal structures are too often designed to suit the commercial interests of international corporations. Greater economic, social and cultural interaction between peoples is to be welcomed. But it needs to be fair, recognising that people come first, that many international interests require cooperation rather than competition, and that individual nations and peoples need to maintain the power (sovereignty) to determine the rules and priorities required for their welfare and development.

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. Current economic policies and principles have demonstrably failed. A new approach is needed which learns the harsh lessons of not just the financial and economic crisis, but the trend of economic events that led to that calamity. We also need to learn from New Zealand's recent history and the unsustainable degradation of the environment. We want policies which work together to strengthen each other and are sustainable, not only from the point of view of government finances, but also because they create and nourish a healthy economy, a healthy society and a healthy environment.

Our vision of the economy is unashamedly people-centred. People are who the economy is for, and people are who make the economy work. They *are* the "real" economy. For this reason, we believe a new political economy 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

Below we highlight principles and list policies that move us towards these objectives. These are soundly based on international research and experience, on the union movement's own long experience of representing workers and their families, and its practical experience in advancing productivity in the New Zealand workplace.

While pursuing longer term goals we must also recognise that New Zealanders are still feeling the effects of the global financial crisis. Before moving to the three pillars, we look at what could be done to address the effects of the crisis in New Zealand, as far as possible doing so in ways that further the longer term objectives of this strategy.

Addressing the continuing effects of the crisis

The economy is not out of trouble. There are still great uncertainties internationally and, even though GDP has started to rise again, unemployment is forecast to remain high for two to three years. Continued government stimulus continues to be needed. The CTU has over the past two years made a long list of suggestions for immediate actions which would also have longer term benefits. These included regional and national infrastructure spending, investment in education and health, tourism projects and promotion, support for iwi initiatives such as housing, further investment in home insulation and clean heating, and rail projects identified by KiwiRail.

We need to consider more actively how we want the economy and society to look as we come out of recession. This would be a good time to expand productivity initiatives based on successful experience. In particular the government should support broadening tripartite good practice industry and workplace productivity projects which have been underway for some years.

With unemployment forecast to remain high for two to three years, more government action is needed. This could include

- Action some of the large range of possible initiatives which would both have long term benefits for the economy and quickly create jobs which the CTU put forward for the Job Summit.
- Stop cutting government jobs.
- Expand the Job Opportunities scheme, continue with Community Max, significantly increase Task Force Green and other environmental work.
- 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.
- Co-finance projects with local government to bring forward infrastructural and environmental work such as water and sewerage projects.
- Bring forward more national infrastructure spending such as investment in schools and hospitals, and green retrofitting of government buildings.
- Increase spending in tertiary education to allow more people to increase their skills and education, with additional support to unemployed people and beneficiaries who wish to enter tertiary education.
- Accelerate the rollout of tourism initiatives.
- Government and SOE purchasing that assists New Zealand manufacturers and services.
- Back New Zealand jobs in KiwiRail projects.
- Partially underwrite bank lending to businesses according to agreed criteria in return for a guarantee of job retention for a specified period.
- Build more state houses, and support iwi and local government housing initiatives.
- Invest further in home insulation and clean heating.

Financial System

We need to reduce our vulnerability to international financial crises, and demands of overseas investors, often expressed through credit rating agencies. There is international support for some of the policies we need. Others we need to take unilaterally and build international support while not taking any further steps which worsen the situation.

New Zealand should support international moves to increase international financial regulation:

- Clamp down on the 'shadow' financial economy;
- End tax and regulatory havens and create new international taxation mechanisms;
- A small international financial transactions tax ("Tobin tax") to discourage speculative financial market transactions which can cause volatility in the exchange rate and create instability in the financial system;
- Ensure fair and sustainable access to international finance for developing countries;
- Support the recommendations of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System.

We should manage international capital movements to and from New Zealand including ensuring we have powers to control

- Bank borrowing from overseas (see section on financial stability)
- Volumes of overseas borrowing;
- Capital movements out of the country, with emergency provision for times of crisis;
- End-use of overseas borrowing such as to give preference to trade and foreign currency-earning investment;
- Minimum maturities (terms) of overseas borrowing, and matching of maturities between borrowing and lending.

Within that context, it would be possible to manage the exchange rate to give it greater stability.

With regard to trade and investment agreements, we should make no further concessions with regard to financial services, investment, intellectual property, measures that constrain our ability to protect the environment, or services such as health and education which require public regulation or provision or are important for New Zealand's economic, social or cultural development. We should not allow overseas investors the right to challenge government decisions, or privilege them over New Zealand residents. Any arrangements regarding the movement of people for work should be specific and separate agreements. We should work with others to undo constraints such as those which heighten the risk of financial crises. Trade policy should not be based on competitiveness through lower pay and conditions or reduced work rights.

Sustainable economic development

Growth is the engine that drives capitalist economies – indeed we don't know if capitalism can survive without growth. But sustainable economic development explicitly takes account of a broad range of side effects of economic activity (externalities). An economic return still matters. But so does the quality of the environment, indigenous culture, a functioning society and strong communities. And we need to be taking into account the increasingly apparent limits to resources which mean that growth in its current form is not indefinitely sustainable.

Our aims for working people can only occur if there are healthy firms and public services to provide decent work, good wages, and high quality products and services. Many New Zealand firms struggle to survive, let alone thrive in the open economy. We need economic development that encourages new businesses and gives existing business a better chance; encourages regional development and alternative forms of development such as those built on cooperatives; encourages wealth creation through productive investment with good, viable jobs, and discourages financial manipulation; stabilises the exchange rate and allows interest rates to be set to suit New Zealand's needs; and aligns our international economic relationships with our economic development objectives.

The market economy will provide many of these outcomes, but by no means all, and in many areas, it will obstruct healthy development. The market is a tool to be used appropriately, not a master or a mantra. Capitalism is brutal but innovative and our aim is to retain and spread the benefits of innovation while policing its brutality. The excesses of the financial sector, asset-stripping corporations and destructive environmental practices need to be reined in. The government has many important roles, including regulating the economy, providing services, redistributing income, and stabilising the economy in difficult times. It needs to be adequately funded through a progressive taxation system to carry out those roles.

One area in which a market economy demonstrably fails without government intervention is in sustainably maintaining a healthy environment. The dangers to the environment through climate change now make it clear that an economy cannot be sustainable without a sustainable approach to our environment, nationally and internationally. Sustainability requires polluters to remedy or pay the cost of their effects on the environment. It needs to be a consideration in everything the economy does. Market mechanisms can help with this but are unlikely to be sufficient. At the same time we must recognise the practicality of transition to this more realistic world and ensure that people who can least afford the change, including many working people, are helped through it.

We recognise we are pushing the limits of what the world's environment can stand. Improving living standards will increasingly need to come from doing things differently – more efficiently and fairly – rather than simply producing more.

Higher productivity will help. This demands that our firms and government agencies make full use of the skills and experience of their employees through their genuine engagement in their workplaces. It requires constant attention to raising skill and education levels in our workplaces and community. Productivity will not rise if firms rely on low wages (as they have in the past) and neglect investment in existing and new technology and in the skills and commitment workers need to get the most out of it.

The following policies address primarily this pillar but also assist and complement the others.

Economic development

A strategic approach is required for sustainable economic development. This could include priority being given to

- Broadly defined sectors such as ICT, high level processing of agricultural products, or developing environmental products and services;
- Cross-sectoral themes such as being environmentally beneficial, or high productivity;
- National and regional Infrastructure Plans.

Support for industries

We have seen firms failing to get past their promising start, and those that do are too often taken over by international firms which have little interest in their continued development in New Zealand. Many currently successful New Zealand firms have benefited from long term government support or special status in their early stages. Subject to a set of criteria we should consider support through

- tax credits;
- the injection of funds through purchase of shares;
- development finance.

These would be targeted to support

- The sectors and cross-sectoral themes selected for strategic priority;
- Environmental sustainability of production, such as energy efficiency and use of renewable energies;
- Development of new products and services which are environmentally beneficial;
- Research and development (further detail below).

This support should not be open-ended or unconditional. It should be based on performance, and it should be temporary though not necessarily short term. Its criteria, processes and actions should be transparent and both firms and government agencies should be held accountable for the outcomes. But at the same time it should recognise that firm development is not a short term process of steady growth. Firms will go through rough patches. Assistance must be sufficiently patient to take into account the fluctuations of markets and external forces.

Criteria for government assistance of firms would include

- Consistency with national priorities;
- Long term viability of the firm;
- Employment is created in New Zealand;
- The firm is party to an industry standard employment agreement where it exists;

- There is a commitment to principles of skills development and fair remuneration throughout the firm;
- The proposal has realistic export or import-substitution potential;
- The firm is actively developing its productivity;
- There is active worker participation in productivity initiatives and production;
- Criteria as for “responsible contractors” to the government.

A recurring problem for firms is gaining critical size to compete internationally with imports and when exporting. We should review competition rules to ensure they are consistent with

- Building firms to a critical size which enables them to compete internationally;
- Support for development of networks and clusters of firms to overcome constraints of their individual sizes;
- Infrastructure which is more efficient with a small number of units and is therefore better to be a regulated industry;
- Cooperation between New Zealand companies that aims to improve economic development and export opportunities such as ports negotiating with the large international shipping companies;
- Having effective powers to break up cartels and ensure firms do not otherwise get into dominant market positions and are effectively regulated where that is unavoidable.

Other support could include the following

- Support and develop the Buy Kiwi Made programme;
- Use government purchasing power (see below);
- Availability of development finance (see below).

Infrastructure

Infrastructure to support economic development is an acknowledged area of need. Our electricity system has failed to give us a reasonably priced and secure power supply; the railway system needs years and hundreds of millions of dollars of work; the telecommunications sector has failed to meet New Zealand’s needs for the digital age and has continual problems of reliability and excessive prices; public transport is inadequate in many cities and needs constant development to provide an attractive alternative to private cars.

Our needs include both new infrastructure, and reform of currently underperforming facilities. Aspects for development include

- A long term government funded and operated programme based on a National Infrastructure Plan;
- Support for regional Infrastructural Plans consistent with the national plan and economic development strategy;
- Review of competition rules as above.

Specifically we need

- A national physical telecommunications network owned either by central government or by regional local government owned providers (similar to the successful electric power boards before the 1990s reforms) to provide free broadband infrastructure, with recognised right to access in all parts of New Zealand. This could include Telecom’s current physical network to allow a more efficient transition from its old copper network to fibre, and the continued use of copper if and where it provides similar speeds to fibre. However, the purchase of this network should be at a price that recognises the imminent obsolescence of significant parts of it and Telecom's failure to maintain and develop it in the national interest.

- To start to buy back the electricity system by taking a controlling stake in Contact Energy and Trustpower and regulate the system in order to optimise it for a combination of security of supply, low cost, and reduction of environmental impacts. The purchase could be funded through long term Kiwi bonds. The rules should also enable households and businesses to sell surplus power to the network.
- Strategies for Ports and for Shipping to ensure best use of our ports, survival of New Zealand coastal shipping services, and efficient transport to international markets.
- Development of public transport in cities including both bus and rail, and support for local suppliers of equipment such as Canterbury's DesignLine bus manufacturing and KiwiRail's Hillside and Woburn workshops.
- A "human infrastructure" fund to provide long term funding certainty to tertiary education and workplace training with encouragement for private contributions.
- Sufficient capacity in the core public service to provide quality and timely analysis and advice.
- Continued full government ownership of state owned enterprises.

Innovation, Research and Development

Research and development policies can encourage innovation in firms, assist their continuing development, and support the capability of our research institutions and researchers. Policies should include commercialisable R&D, but not be limited to it.

Research and development can be supported

- in firms by funding through a choice of buying shares in the firm (equity) or part state ownership of intellectual property created, or through tax credits;
- by research and development funds for technology and services which assist national priorities and themes;
- through Crown Research Institutes, with encouragement for collaborative clustering of firms sharing development and commercialisation;
- by reviewing intellectual property laws and institutional rules to encourage
  - new forms of Intellectual Property ownership similar to "open source" software, "creative commons" licensing and the practical application of publicly funded research by our universities and CRIs, in order to enable sharing of their development by firms, extracting the widest benefit rather than conferring limited monopolies;
  - researchers who create new concepts by ensuring they have a share of ownership of the intellectual property where it is not in the commons;
- by moving most government funding of research to centres of excellence (formal or part of existing institutions) and capability funds such as PBRF and CRI core funding, away from contestable funds in order to improve the utilisation of our public research capability. Centres of excellence should be required to collaborate with all New Zealand experts and users in the field;
- by funding extension services staffed by people with deep industry and marketing experience who can form a knowledge bridge between

researchers and firms to put both local and overseas developments into practice.

Gaining from new technology

These economic development policies will encourage firms to invest in new equipment and processes and to engage in research and development.

Industry collective agreements and standards should combine realistic wage setting with the elimination of wage reductions as a competitive strategy within sectors. This keeps the focus on raising productivity through investment and gives workers confidence they will see its results in their wages.

Increasing worker participation, such as in developing productivity, making the most of new technology, and in making changes in the workplace, should be recognised as an essential part of good management practice. Good management practice should be developed and disseminated via programmes of mentoring and training through tertiary education programmes and employer organisations.

Productivity Commission

A new Productivity Commission can play a useful role if it focuses on identifying and spreading good practice, rather than an unproductive obsession with taxes, deregulation and compliance costs. It should

- Be based on a social partnership approach, including union (and wider) representation in its governance;
- Have as its objectives facilitating policy development, practical activities and research which boost productivity on a sustained basis;
- Be independent, but second officials from other departments;
- Take an analytical and research role on productivity issues and trends;
- Build links with academics through commissioned work and more formally;
- Focus on the modernisation process through infrastructure investment, sustainability and identifying ways to maximise multifactor productivity in workplaces;
- Sponsor a High Performance Work Initiative which supports practical productivity projects;
- Share information on and adapt a range of productivity tools and models;
- Run inclusive events/workshops on productivity and have educational tools and other information on its website;
- Produce an annual report on productivity.

Education and Skill development

Early childhood education is an effective basis for future educational achievement. We should build a national network of high quality local publicly owned early childhood education centres with increased support to ensure that it is responsive to Maori, Pasefika and migrant children, and meeting a target of 100 percent of qualified teachers.

Schools must be resourced to at least keep up with rising costs, including salaries, provide continuing professional development to staff to enable them to provide the most effective educational environment for children and young adults as they develop, and to provide the capital to develop their facilities without being forced to rely on private operators. Pathways to tertiary education and between tertiary education providers should be simplified.

Tertiary education will benefit from the proposed “human infrastructure” fund. Funding should take into account the greatly varied scale, context and expectations of the different public institutions, and should be much less driven by learner numbers. It should recognise the local and international demand for tertiary education staff and the often scarce skills they bring. Tertiary education should be available to all who have a reasonable likelihood of benefiting from the courses they enrol in. Lower fees should be available to students who are willing to be subject to a bond which requires them to take certain types of work in New Zealand for a certain number of years. Apprenticeships should be encouraged and funding for industry training should be conditional on employers in those industries recognising the acquired skills in their workers' pay scales.

The private tertiary sector should be reviewed to fully understand its contribution with a view to encouraging public good rather than private profit provision of tertiary education.

Life-long learning and skill development should be supported by funding one year of fees and allowances for every five in the workforce or child care. Education could be workplace based, or through an educational institution. Employer support for skill development should be encouraged by regarding spending on skills and education as an asset acquisition which can be written off over five years.

Education can support the development of environmental sustainability through special funding for apprenticeships and programmes in industries and subject areas that are environmentally sustainable or that support sustainability. Students should be attracted to such subjects by reducing fees in those areas and others in which skill shortages exist or are anticipated. Funding categories in tertiary institutions should be reviewed for that purpose.

Government procurement

The government and its enterprises are a major part of the economy, and can assist development through purchasing policies which look beyond the narrow criterion of value for money for the purchasing agency. The 2010 economic analysis showing the very positive national impact of building the rolling stock for the Auckland commuter rail system shows how beneficial this could be. We should use government and SOE procurement to develop local industry by policies including

- Ensuring all tenders are framed to make them feasible for New Zealand produced goods and services wherever possible;
- Ensuring conditions of tenders take into account national benefit rather than a narrow purchaser-specific “value for money” criterion;
- Preference to New Zealand produced goods and services within a 10 percent price difference;
- On the basis of economic impact studies,
    - Providing equity capital to firms to enable them to tender competitively; or
    - Commissioning products in sufficient numbers in order to give firms sufficient experience and scale to bid for future work or diversify into related markets, particularly export markets.

Māori

Support for Māori economic development should include the role of iwi and Māori urban authorities in securing a sustainable base for Māori. It should reject involvement in forms of privatisation such as public-private partnerships.

There needs to be continuing support for Treaty settlements, including capacity building and training around those settlements, support to increase the education and skill levels of Māori so they can take an increasingly active role in the social and economic development enabled by the settlements, and consider other ways to ensure the benefits reach Māori workers.

Māori co-operatives such as in the seafood industry should be supported (see also the section on Co-operatives).

Our housing policy, as well as proposing programmes that will benefit Māori along with many others, specifically supports

- Subsidising home lending in tailored programmes for targeted groups including Māori;
- Greater support for housing on Māori land by lowering individual income requirements and considering assistance for community housing initiatives.

Migration

We support greater numbers of permanent skilled immigrants but immigration policies should be consistent with economic development strategies, workforce and skill development strategies, and workers' rights. We support a rights based approach to migration, an investment in processes that lead to good settlement outcomes and quality employment for all workers – migrant or local. Policies should 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;
- Contribute to increasing skill levels of New Zealand residents;
- Satisfy tests for priority employment and skill development of New Zealand residents, skill shortages and economic need.

Temporary immigration for employment should be very limited, subject to strict skill shortage tests, good employer requirements, commitment to training New Zealanders for the roles where appropriate, and be subject to specialised bilateral agreements with source countries.

Regional development

Regional economic development is important to make the best use of our resources, assist disadvantaged regions, and nurture new ideas. Central government can support local government in its development of local industry and services such as through industry clusters and use of local government procurement to assist local industry. Many of the above policies could be applied at the local government level with or without central government support.

Cooperatives

New Zealand has a long history of very successful producer (such as farmer) cooperatives, mutual societies and other community owned service providers such as trustee savings banks. In 2007, the combined turnover of cooperatives and mutuals was over $27 billion, according to the New Zealand Cooperatives Association. Producer cooperatives should continue to be encouraged. Worker cooperatives are comparatively rare however. Worker cooperatives have the potential to maximise worker participation. Cooperatives which employ only their owners, and are owned only by their employees can be encouraged by taxing the cooperative at the individual employee/owners' tax rates, suspensory loans to aid at start-up and for the introduction of new technology, and cooperative incubator support like the business incubator model.

Financial system

The financial system should support economic development. But in the wake of the Global Financial Crisis, and recent experience of the behaviour of our own financial institutions, there is much needed to be done to return the financial system to stability and to its role supporting economic development rather than following its own anti-social interests.

Financial stability and responsibility

While the Australian and New Zealand banking system emerged comparatively unscathed from the Global Financial Crisis, we are not convinced that was due to the quality of its institutions or its regulation. In addition, the behaviour of the financial sector in past years has given numerous causes for concern. The following issues need to be addressed.

Stability

The dependence of New Zealand on the Big Four Australian owned banks which account for 90 percent of the assets of the banking sector raises major policy issues if one or more of them should become illiquid (as nearly happened in the crisis) or fail, or if one or more of them should threaten the government with some form of capital strike if they do not like government policies (as mining companies threatened in Australia over the proposed resource tax). These are issues of systemic stability. We propose the following.

Closer oversight over all financial institutions, the degree of oversight in proportion to their use of leverage and systemic significance ("Too Big to Fail") including

- Legislation to ensure the separation of traditional commercial banking (deposit taking and lending) and investment banking;
- Sufficient capitalisation, rigorously enforced;
- Control executive, shareholder and other financial intermediary remuneration to prevent the excesses we have seen overseas;
- Removal of excess profits through a FAT tax (Financial Activities Tax) similar to that proposed by the International Monetary Fund, levied on the sum of the profits and high-level remuneration of financial institutions;
- Requirement for regulatory approval for financial services which are of high risk (whether sourced from New Zealand or abroad);
- Significantly reduce reliance on foreign funding, for example through prudential and liquidity regulations;
- Strict controls on off balance sheet and shadow banking;
- Availability and limits of bailout provisions and deposit guarantees clearly

defined in statute, funded through a levy on financial institutions based on each institution's riskiness and contributions to systemic risk, using measures such as size, interconnectedness and substitutability, as proposed by the International Monetary Fund;
- Thorough review of the regulation of non-bank financial institutions.

Reduce the vulnerability of the New Zealand financial sector to the Big Four and overseas ownership by measures including:
- Scaling up Kiwibank to a comparable size to the big four banks and able to function in a crisis if the other banks are disabled as a result of their international connections, through
    - increasing its capitalisation, through a combination of government equity and some form of long-term or perpetual securities (like the recent successful issue) which the New Zealand Super Fund could find attractive;
    - moving the Government accounts from Westpac to Kiwibank;
- Reviewing the national payments systems with a view to ensuring they can continue in the absence of any of the Big Four, by putting in place the appropriate computer systems and expertise, to be run by the Reserve Bank or Kiwibank;
- Reviewing and planning for responses to similar (or greater) financial crises to the current one, including ensuring authorities such as the Reserve Bank have sufficient powers;
- Banning offshore outsourcing of infrastructure.

Social responsibility

Increase the transparency and accountability of the finance sector such as
- Provisions like those in Australia which require charges to be related to real costs;
- Stronger consumer protection such as through a Financial Consumer Agency;
- Recognising the dependence of the financial sector on government and public support, and the importance of the sector to the economy, by making institutions designated "Too Big to Fail" subject to Social Responsibility requirements including:
    - social partnership involvement in governance;
    - responsible lending practices to individuals;
    - support for economic development objectives;
    - responsible customer and staffing practices including an end to overseas outsourcing;
    - an end to tax avoidance and evasion;
- Encouraging the expansion of what has proved to be responsible banking such as trustee banks, mutuals and cooperatives.

Provision of finance for economic development

New Zealand industry suffers from the lack of suitable finance for development. Funding could come from
- A government owned development finance agency with social partnership governance raising funds from direct government contributions, investment from other government investment funds (such as ACC and the New Zealand Superannuation Fund) and privately subscribed bonds. This would provide both development funding (including venture capital and "patient funding" during further development phases) and an investment vehicle to increase local equity in New Zealand firms;

- Long term Kiwi bonds for infrastructure, which may be attractive for superannuation purposes;
- Encouraging greater proportion of the New Zealand Superannuation Fund to be invested locally by use of partial government guarantees to the Fund on investment consistent with the economic development strategy ;
- Encouragement for private (e.g. Kiwisaver) superannuation funds to invest locally through a 10 percent reduction on tax paid by a fund on income from New Zealand investments, to be reviewed after five years;
- Encouraging domestic savings and their investment in economic development through changes in housing policies, and further expansion of the Kiwisaver scheme (see below).

Monetary policy and the exchange rate

The single focus of monetary policy on consumer prices and the use of interest rates as the predominant tool to control inflation has damaging effects on economic development by frequently forcing up interest rates beyond levels that make new projects feasible, and raising the exchange rate by attracting foreign funds aiming to profit from the higher rates. Monetary policy can be an important tool in economic development and stabilising the economy. It needs to return to that vital role, while maintaining the control of inflation as one of its objectives. However the exchange rate will remain a problem while there are no controls on capital movements.

We should review both the Reserve Bank Act and the Fiscal Responsibility provisions of the Public Finance Act to support the following policies:

- Ensure the Reserve Bank has sufficient powers to take action on the exchange rate and international capital flows;
- Give the Reserve Bank an active role in stabilising the exchange rate through management of international capital flows and currency controls, seeking cooperation and agreements with other nations;
- Stabilise the exchange rate by a floating peg (fixed but periodically adjusted) or similar arrangement;
- Broaden the terms of reference for monetary policy beyond inflation to include employment, living standards, the exchange rate and other matters;
- Reduce the reliance of monetary policy on interest rates for example by direct control of the money supply, capitalisation ratios, and liquidity regulations;
- Consider other monetary policy mechanisms such as empowering the Reserve Bank to increase or reduce a small slice of superannuation contributions. This would be subject to the outcome of a specific inquiry into the advantages and disadvantages of compulsory superannuation. If compulsory superannuation did result, the new monetary policy mechanism would work as follows, once compulsory employer superannuation contributions have reached 6 percent:
    - A 2 percent compulsory worker superannuation contribution;
    - In order to tighten monetary conditions, the Reserve Bank could require an increase of up to a further 1 percent compulsory contribution (that is, no more than 3 percent in total), the proceeds of which would go into a special Holding Fund, in which each individual's contributions were identified;
    - When monetary conditions are relaxed, Holding Fund contributions would be released back to the contributors, giving each the option of

taking it as cash or adding it to their superannuation funds;
- Increase the powers of the Reserve Bank Board of Directors, and widen community representation on it.

International economic relationships

We need to reduce our vulnerability to international financial crises, and demands of overseas investors, often expressed through credit rating agencies. There is international support for some of the policies we need. Others we need to take unilaterally and build international support for while not taking any further steps which worsen the situation.

New Zealand should support international moves to increase international financial regulation:
- Clamp down on the 'shadow' financial economy;
- End tax and regulatory havens and create new international taxation mechanisms;
- A small international financial transactions tax ("Tobin tax") to discourage speculative financial market transactions which can cause volatility in the exchange rate and create instability in the financial system;
- Ensure fair and sustainable access to international finance for developing countries;
- Support the recommendations of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System.

We should manage international capital movements to and from New Zealand including ensuring we have powers to control
- Bank borrowing from overseas (see section on financial stability);
- Volumes of overseas borrowing;
- Capital movements out of the country, with emergency provision for times of crisis;
- End-use of overseas borrowing such as to give preference to trade and foreign currency-earning investment;
- Minimum maturities (terms) of overseas borrowing, and matching of maturities between borrowing and lending.

Within that context, it would be possible to manage the exchange rate to give it greater stability.

With regard to trade and investment agreements, we should make no further concessions with regard to financial services, investment, intellectual property, measures that constrain our ability to protect the environment, or services such as health and education which require public regulation or provision or are important for New Zealand's economic, social or cultural development.

We should not allow overseas investors the right to challenge government decisions, or privilege them over New Zealand residents. Any arrangements regarding the movement of people for work should be specific and separate agreements.

We should work with others to undo constraints such as those which heighten the risk of financial crises. Trade policy should not be based on competitiveness through lower pay, conditions and reduced work rights.

We seek a "new internationalism" which recognises that many important factors require cooperation rather than a market approach. These include peace (e.g. nuclear disarmament), human rights, climate change, food security, public health, the financial system, and trade regulation and supervision. For New Zealand this would include

- 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;
- International agreement on control of capital movements;
- Controls on foreign direct investment to enable selection of beneficial investment and enforce corporate responsibility, allow developing firms to survive in New Zealand, protect strategic assets and prevent asset stripping such as through leveraged buyouts and private equity investors;
- Democratisation, transparency and accountability of global institutions currently dominated by US and EU;
- Greater roles for the UN and UNCTAD in international economic and financial policy making to balance social with commercial imperatives;
- Consideration of the recommendations of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, such as a Global Reserve System and a Global Economic Coordination Council ("At a level equivalent with the General Assembly and the Security Council, such a Global Economic Council should meet annually at the Heads of State and Government level to assess developments and provide leadership in economic, social and ecologic issues... Representation would be based on the constituency system, and designed to ensure that all continents and all major economies are represented");
- Building our relationship with Australia, and South Pacific nations based on these principles, plus:
    - Caution in any further integration with Australia without considering social consequences, possible need for EU-like fiscal transfers, implications for wider relationships and our own independence;
    - Respect for the development aspirations of Pacific nations, and the inequality of power relationships between Australia and New Zealand on the one hand and the other nations on the other;
- Building on existing international union links, global union federations, and Codes of Conduct and International Framework Agreements between global union federations and transnational corporations, to create trans-national union collaboration in campaigns and organisational development, and where possible and appropriate international collective employment agreements;
- Working towards trans-Tasman employment agreements with a growing base of conditions common to both countries.

Role of the state

The state plays an important role in regulating markets, including for example electricity, telecommunications, and the financial sector. It also has an important role, particularly in a vulnerable open economy, in stabilising the economy both through action in times of crisis and in creating automatic stabilisers through the social welfare system.

It remains the best owner of parts of the economy. Examples include infrastructure where large economies of scale mean that monopoly or oligopoly is most efficient, and providing competition, such as Kiwibank does in banking.

State owned assets have multiple functions, the balance of which will differ in each case. They include

- Preventing excess profits in important services which are a monopoly or are otherwise less than fully competitive;
- Ensuring essential services are provided equitably and affordably;
- Providing security of services;
- Social solidarity mechanisms such as ACC;
- Providing services in the public interest which the private sector is unlikely to provide;
- Providing additional income to the government.

Public services should meet the needs of citizens, and provide value for money ("public value"). This requires an openness to discuss these matters with citizens, and to listen to what they say. It will work best when the voice of workers is valued in a high-trust public service workplace. Though cost is an important consideration, there should not be a narrow focus on obtaining services at the least cost. We should look at the full value to society and the economy of providing public services, and the consequences of them not being provided.

For public organisations, the form of governance, management, accountability and financial accounting should recognise that public services have different objectives and may have different organisational structures from private sector organisations. There should be sufficient capacity in the core public service to provide quality and timely analysis and advice. At the same time there are themes in common with other workplaces: sustainable services, productive workplaces, worker participation.

Because of its size and ability to tax and borrow, the state is best placed to provide security that is not otherwise available to individuals, with a welfare system based on reducing inequality and ensuring dignity as described elsewhere in this document, rather than a safety net.

Government procurement can also be used to encourage economic development, as described above.

Responsible contracting policies can also speed up adoption of good practices, by requiring for example that

- The contracting firm is party to an industry standard employment agreement where it exists and there is a commitment to principles of skills development and fair remuneration throughout the firm;
- The firm has a process to achieve pay equity for its women workers;
- There is active worker participation in productivity initiatives and production;
- The firm is working towards its production and work processes being environmentally sustainable.

Taxation

It is essential that the state is sufficiently resourced to carry out its functions and carry out its important redistributive role. Taxation can also encourage and provide support for productive investment and for other positive directions society determines.

Progressive income taxes are important sources of income and play a central part in redistribution, lessening income inequality, which becomes increasingly important in the context of resource-limited economic growth.

Income tax: Create a tax-free band and/or a tax rebate for those on incomes under $35,000. The income tax scales should be augmented by a 38 percent rate on income more than approximately twice the average wage ($100,000) and a 45 percent rate on income more than approximately three times the average wage ($150,000).

Reduce GST to 12.5 percent and progressively replace it with other forms of taxation including asset taxes (see below), the international Financial Transaction Tax and the FAT tax explained above, and taxes or increased royalties on commercial use of resources.

Polluters should face taxes on their emissions, including greenhouse gas emissions (see Climate Change below), with the aim of them paying the costs of all significant "externalities" (side effects such as pollution and global warming). However this should be done in a way that ensures people on lower incomes do not end up paying an unfair share of the burden.

We should investigate improvements to the welfare system through the tax system including at least partially replacing Working for Families with a tax free threshold on personal income, like in Australia. See also Social Security below.

Address tax avoidance through

- Sufficient resources to IRD to track down evasion;
- Ensuring that Trusts other than registered Charitable Trusts cannot be used for tax avoidance;
- Changes to the company tax regime.

Company tax

- Return the company income tax rate to 30 percent;
- Investigate income taxation of closely held companies to make it difficult to use them for tax avoidance and to provide tax relief for struggling local owners of small firms (for example for such firms, tax all income to individual resident shareholders at their personal tax rate, whether the income is retained in the company or paid out in dividends);
- Apply thin capitalisation rules to overseas owned companies with a debt threshold at 50 percent;
- Consider ceasing tax deductibility of interest on related party borrowing;
- Taxes on commercial use of resources and on externalities as described above;
- Taxes on excess profits as the result of market dominance.

Additional sources of revenue should include:

- Ending deductibility of rental property losses against personal income.
- A capital gains tax or a "Risk Free Rate of Return" tax on assets, subject to equity considerations: that is they should be designed to be progressive, aimed primarily at investors, and exempt a household's primary occupied home.

Environment

Climate Change

There is considerable evidence that emissions of greenhouse gases are a cause of harmful climate change. The risks of doing nothing could be catastrophic. Therefore we support a price on emissions so that a clear signal is sent to emitters. However this needs to be strengthened with a major programme to transform the economy.

It should include allocation of credits or other forms of protection for firms that are "competitiveness at risk" and facing a price for emissions. This should be monitored to ensure this assistance is not misallocated or too generous, or there is insufficient change of behaviour.

In addition, a more comprehensive approach is required including the following to ensure a *Just Transition* to a more sustainable society:

- Support for workers displaced by changes due to the response to climate change, as described below under Employment;
- Major investment in skills for a low carbon economy;
- Provision for assistance when a whole community is affected by climate change;
- Mitigation measures on poverty (for example, from an increase in electricity prices), incomes, equity and gender equality;
- Participation by workers in the approaches taken to climate change in workplaces – for example by Union Climate Network Delegates;
- Union involvement in decision making on such changes at all levels, from national policy-making, to regional and industry change, to involvement in local negotiations, such as those surrounding environmentally-triggered plant closures;
- Research and information freely available.

Public services and public sector leadership at all levels of government must be at the heart of the global response to climate change. Public involvement in technology transfer in the utilities sector, for example, should be encouraged and financially supported. Public procurement contracts should include specifications for labour and environmental sustainability standards.

Measuring progress

Countries tend to evaluate their progress by increases in measured output – usually by GDP per person. It is widely acknowledged that this is a poor measure of wellbeing and progress.

For example it counts money spent on building a prison or cleaning up an oil spill as if it were as beneficial as building a new school or paying the wages of workers in a factory. Crime and environmental degradation can make GDP look better, and no account is taken of the loss of asset values when we mine minerals or damage an ecosystem, or the benefits of leisure and use of public assets like parks and beaches. It takes no account of the value of unpaid work in homes or voluntary organisations.

Nor does GDP measure the changes to most aspects of the nation's wealth other than those in the market economy and government. It ignores depletion of resources such as oil and minerals which reduce the country's wealth while it increases that of the new owners, and ignores damage or improvement to the country's natural wealth such as pollution or clean-up of rivers and its "human capital" in the skills, knowledge and experience of its people.

There are better indexes being developed to measure progress which discount "bads" and take into account wider indicators of social, economic and environmental wellbeing, and a broader view of wealth. Examples include indexes being developed by the Commission on the Measurement of Economic Performance and Social Progress initiated by the French President and headed by Joseph Stiglitz and Amartya Sen; Statistics New Zealand's new regular reports, "Measuring New Zealand's Progress Using a Sustainable Development Approach"; Marilyn Waring's General Progress Indicator; and the Canadian Genuine Progress Index.

One or more of these indexes should be adopted to use alongside GDP to guide national decision making and priorities.

Decent work and a good life

The economy must pay good wages and salaries. We can have sustainable economic development only if we stop losing many of our most able people. Good wages also mean people have the money to buy goods produced in New Zealand so we have a strong domestic economy as well as trying to export more. Sustainable growth in workers' incomes is based on two essentials: higher productivity (a focus of sustainable economic development); and passing on the gains into higher wages and salaries.

Good wages are a matter of being fair as well as being good for the economy. Working people have not received a fair share of the growth in the economy over the last two decades. Workers will make a commitment to their work if they see the results benefiting them and the community, and if their jobs are rewarding in human as well as financial terms. We know from New Zealand's experience over the last two decades that the benefits of higher productivity will be passed on into higher wages and salaries only if there are effective unions and supportive employment legislation.

There are wider benefits. The creation of collectively based employment agreements negotiated by effective unions creates "automatic stabilisers" which during a recession such as the current one ensures that wages don't crash, reducing demand for goods and services and worsening the crisis.

Business says it needs certainty, but people do even more so. Full employment and security of employment and income are critical, but there are benefits if security is combined with sufficient flexibility to allow firms to adapt to changing circumstances. People also need to be confident that if they lose their jobs, suffer ill health, injury or relationship break-ups, and when they retire, that they can maintain a dignified existence. They need to be able to afford good quality housing and other essentials of life.

A healthy society in which we can live a good life does not have high levels of inequality. Inequality leads to inferior physical and mental health, educational achievement, crime levels, and social mobility, which in turn create real economic costs. A healthy society respects and rewards people regardless of their gender, culture or ethnicity so that all can make a contribution, making full use of their abilities.

Union Change

The Union Change programme being developed by the CTU will:

- extend union coverage and collective bargaining to the widest possible group of workers;
- introduce a rights-based framework for coverage by collective agreements, participation in unions, and workers' voice in their workplace and industry about the way work is organised and their place in it;
- create mechanisms for national and industry level standards setting;
- create a broader union movement including forms of organisation that allow workers to easily associate and participate;
- Develop a formal proposal for a more structured approach to social partnership. This could include considering the desirability of establishing

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.

Employment

Full employment should be a central objective of government policy.

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

Social Security

Review the adequacy of other benefits to eliminate poverty, with the aim of tying their base rates to a proportion of the average wage. See also under Taxation above.

Return ACC to a social compensation scheme funded on a "pay as you go" basis through levies and taxation.

Housing

Housing is an essential part of our standard of living, a critical factor for people's health, and a central issue in New Zealand's lack of funding for productive investment. We need to assure people of access long term to low cost, quality housing while encouraging savings to be invested in other areas. The tax policies we propose will help. The following are addressed specifically at housing needs.

Housing is a complex issue, touching on almost every aspect of society from town planning to transport, and from cultural attitudes to building codes. There are no simple answers. We should therefore 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 Corporation's (HNZC's) available housing stock by 20 percent;
- Developing local strategies between national and local government and HNZC to respond to housing bottlenecks in key areas such as Auckland, Queenstown, and the north of the South Island;
- Reviewing potential land for housing within metropolitan urban limits,

some of which may have been deliberately withheld from development ("landbanked") to raise its price in the medium or long term, with a view to requiring the development of some or all of that land to meet local affordability challenges;

- Encouraging "inclusionary zoning" that requires developers to make provision for affordable housing in developments, or levies developers where they do not wish to do so, to provide a fund for affordable housing;
- Requiring each local council to insist on a quota of affordable houses in its area, some of which it provides directly;
- Supporting high density development in urban areas;
- Reforming tenancy laws to give greater security to tenants;
- Sponsoring designs for low cost, green and healthy owner-occupied housing;
- Expanding the Healthy Housing programme and assessing all new housing initiatives on the basis of their health and environmental impacts;
- HNZC housing stock reflecting changing demographic patterns in New Zealand, providing low cost communal housing that better reflects the multi-cultural needs of its tenants;
- Enforcing current rules taxing capital gains made by property speculators to discourage housing price bubbles;
- Capital gains or asset taxes as described under Taxation;
- Ensuring that there are sufficient skilled workers available to build and maintain housing through a higher level of investment in industry training in this sector as it comes out of recession.

Increase affordability of housing by

- Phasing out accommodation supplements (worth over $1 billion a year), which effectively act as a landlord subsidy and thus encourage higher rents, in favour of assistance with home loans for low income families and public rental and third sector housing programmes;
- Subsidising 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, Pacific people and other financially disadvantaged groups. Each may benefit from a different programme;
- Greater support for housing on Māori land by lowering individual income requirements and considering assistance for community housing initiatives;
- Expanding shared equity schemes in which the government or a private entity takes a share in the house which is returned as a proportion of the sale price when the house is sold;
- Improving the subsidies for Kiwisaver withdrawals for home purchase;
- Restricting sales of residential property to permanent residents and New Zealand citizens only;
- During downturns in the construction industry, consider providing low interest funding through the Reserve Bank for new housing conforming with green and good health conditions (insulation, heating standards etc) through:
  - Banks on condition of pass on of interest rates;
  - Housing New Zealand for state housing;
  - Local government for low cost rental housing.

Retirement

New Zealand Superannuation should be maintained, supported by the New Zealand Superannuation Fund to which contributions should be resumed as soon as practicable.

This should be augmented by a Kiwisaver scheme which is enhanced both to increase saving and to include people unable to provide for their own retirement. Because the majority of Kiwisaver fund clients are workers, governance of funds should include union representation. Such enhancements should only occur after an appropriate inquiry into advantages and disadvantages but could include:

- Compulsory employer contributions of 6 percent phased in over 4 years;
- Compulsory employee contribution 2 percent;
- Government top-up 2 percent;
- Addressing equity issues: conduct an inquiry into addressing equity issues, such as those resulting from lower pay rates and lifetime incomes of women with a view to beneficiaries and non-working parents receiving a government contribution in lieu of the employer contribution.

Inequality

Reducing inequality is a theme in the above policies. Other means to reduce inequality should be sought, and reduction of inequality should be a criterion in the evaluation of new policies.

Our policies for more effective unions, industry agreements providing benefits beyond union members, workplaces that value worker participation, and more generous unemployment and social security benefits are all important in reducing inequality in both income and power.

An additional measure would be to introduce progressive electricity pricing, entitling every household to a certain amount of electricity at a lower unit cost than additional units.

Equity

- 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;
- Extend the paid parental leave entitlements to 52 weeks for the eligible parent; ring-fence paid paternity/partner levels of 4 weeks; and increase payment levels for the eligible parent to 66% of the average weekly earnings while on parental leave;
- Extend the flexible working arrangements legislation to give all workers the right to request such arrangements;
- Increase the minimum wage rate to 66% of average ordinary time hourly earnings ($16.67 per hour at March 2010). This both increases demand (important during a recession) and reduces inequalities.

Voice: real participation in decisions in the workplace, economy and community

One vote every three years does not make a healthy democratic society. The issues that confront society are much more complex and changing. Indeed General Elections are bringing less effective public debate and less real change. The workplace is currently a democracy-free zone. We must find ways to increase participation of the public in the issues of the day and for workers in their workplaces. Effective unions are an important part of that.

Sustainable economic development, decent work and a good life for everyone does not arise through a utopian vision. It requires constant trade-offs in the real world of markets, governments and the pressures and opportunities of globalisation. Hugely disparate outcomes arise because of unequal power. Part of this is about resources. But voice is a means of influence.

The changes that we advocate here should not be seen as a blueprint but part of a process of the continuous rethinking of society that is required in rapidly changing circumstances. That can only be done if there is a political process that gives voice to the many different objectives that co-exist in our society rather than allow the process to be dominated, as it is at the moment, by powerful economic interests and media controlled by them. In many ways, the process is as important as the objectives because there will be no endpoint: society will continue to develop and must find ways to do so which produce acceptable compromises.

Consultative structures

Central and local government should require a process of consultation with social partners (unions and business) and other affected groups in all policy development and legislation. Key bodies representing these groups should be funded to enable effective involvement in consultation.

Public services should be designed to meet the needs and values of citizens by consulting with them and the public service workers who implement them.

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 sessions at lunch-time or other appropriate time to consult on local issues. This should include an opportunity for local councils to consult.

Media

We should create increased 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, like the Scott Trust which owns the Guardian and Observer in the U.K.;
- Funding for investigative print journalism through the equivalent of "New Zealand On Air".

Worker Participation

Increasing worker participation is recognised as an important part of good management practice. There is an economic rationale for this: maximising productivity requires that employers make full use of the skills and experience of their employees. This comes through the active and willing participation of workers in their workplace. In addition, the changes in work that are accelerated by international competition and new technologies will be made more quickly and effectively if workers have a say in their workplace and skills development.

Firm, industry and national participative structures sustain worker participation:

- 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, skills development, industry development initiatives, and creating networks of firms;
- These could also feed into the National Tripartite Social/Economic Council described above.

The value of having unions alongside good management practices in workplace organisation (such as in productivity initiatives) should be recognised through a requirement to involve unions throughout processes of change in workplaces, in workplace structures, and in development of new skills.

Health and safety representatives and learning representatives should be supported with a major expansion of current initiatives.

Other options for worker participation should also be considered including worker representation on boards and on-line consultation forums for workers and management.

Conclusion

The intention of these proposals is to create a real alternative to the economic orthodoxy that has been the dominant influence in New Zealand for the last quarter of a century, and has proved unable to deliver a thriving and sustainable economy which provides improving well being and living standards to all New Zealanders.

They have been developed in a process of consultation within the union movement and with many other organisations and experts. We freely acknowledge that many will need further discussion and refinement. That process is itself as important as the policy outcomes.

We have described principles on which to judge this alternative. In the end though it will be judged simply by whether it provides a better life for working people.

As the evidence we have presented demonstrates, the current orthodoxy, despite improvements under the last government which at least stopped much of the deterioration, has been unfair for most, and devastating for too many. We do not claim that these proposals contain universal solutions. There are none: all economic and social policies are a compromise between competing needs, wants and interests. But we do have confidence that they provide a coherent, sustainable and significant improvement on the past, that they take us significantly closer to an economy that works for everyone.

Alternative Economic Strategy

Appendix: Background

The Background paper in this appendix was completed in September 2009. Along with the Alternative Economic Strategy, it was requested by affiliates of the CTU. The first draft of the Strategy provided this backgrounder, a rationale and a proposal for the policies within it. The document was launched and debated at the October 2009 CTU Biennial Conference. Over the following six months the CTU organised workshops for affiliates and discussions with economists and others from a range of perspectives. A final draft of the Alternative Economic Strategy was produced for the May 2010 National Affiliates Council and then finalised for its August meeting.

Twenty-five years before the year this was written, a government was elected in New Zealand which used an economic crisis to introduce policies based on the idea that less government was better government and that "the market" if left to itself would lead to faster economic growth and better outcomes for society. It was not unique. The Thatcher government in the U.K. and the Reagan administration in the US were following similar "neoliberal" policies, and similar policies were followed or imposed on many other nations throughout the 1980s and 1990s. Their policies included a minimal safety net replacing social solidarity in provision of government services and benefits; privatisation of many functions and a reorganisation of what remained of the public service using private sector models; and a minimalist view of what is necessary in the way of regulation, including almost complete opening of our economy to the rest of the world. The leaders of successive New Zealand governments over-rode opposition with the slogan "There Is No Alternative".

We are now in the midst of the greatest global financial crisis since the Great Depression of the 1930s, and one of the deepest global economic downturns in recent years. There is widespread agreement, other than among self-interested former beneficiaries of the now-broken financial system, that the crisis arose from excessive reliance on "the market" and minimalist or non-existent regulation by government. Few people in the world will come out of this crisis unscathed even though some argue that the worst is over, green shoots abound and it is "business as usual". Hundreds of millions of people will have lost their jobs, billions will find themselves poorer, many in the low-income countries to the point of hunger and desperation. Several years of growth have been lost and must be painfully recovered. We can now say with confidence about neoliberalism: That Is No Alternative.

This is therefore an exceptionally appropriate and necessary time in historic terms to consider and debate alternative economic policies. It is particularly so for the Union Movement. It was working people and people thrown out of work who bore the brunt of the neoliberal policies. Unions were sidelined in the 1980s and the deliberate target of the government of the 1990s. The resulting weak bargaining power of working people is a significant contributor to our current situation.

The challenges

The Global Financial Crisis (as it is becoming known – or the GFC) is one of those events that will have a lasting effect on the way people around the world think about economics and government. Because of this, it is important to understand its causes, features and the changes it is likely to bring about. We also need to understand New Zealand's current situation and how we got to where we are in order to think about solutions.

Where did the Global Financial Crisis come from?

Although the GFC began in the financial system – the world of banking and investment financing – it has a longer context in the development over the last century of the world economy, and particularly in the economic powers, the US and Europe.

The wealthy countries of the world are sometimes also called the "industrialised world". That is no longer an accurate description. The huge industrial corporations that developed in Europe, the U.S.A. and Japan have long depended on raw materials from other countries, often in the low income "developing" world. They frequently used their economic power to ensure access to those materials: oil, metal ore, agricultural produce, and so on. At times they used their governments' military force. At the same time they protected their home markets by tariffs, quotas and other means.

US dominance and reconstruction in Europe and Japan following the Second World War, along with a system of stable exchange rates, controls on capital movements and slowly opening goods markets under the post-war Breton Woods and GATT agreements led to strong growth of those corporations. Though their strength was initially based to a large extent on prosperity in their home markets,that same strength led to them outgrowing their home markets. As well as exporting, they increasingly set up branches or took over companies in other parts of the world, becoming multinational corporations. They found they could more profitably produce outside their home countries taking advantage of much lower wage rates, low or zero taxation and few restrictions on how they treated their workers. In a real sense they became irresponsible – present everywhere and anywhere, with no allegiance to any particular country or community.

At the same time, some developing countries were increasing their own industrial capacities, notably countries in East Asia – such as South Korea, China, Taiwan, Malaysia – but also India, Brazil and others. While some of that capacity was locally owned, developed with the help of a wide range of government support policies and protections from trade and investment competition, a significant proportion of it was in branches of the multinational corporations, often in effect competing with their own factories in their home countries.

This developed during a period when new technologies have been increasingly rapidly adopted, both to reduce the cost of existing products and to create completely new ones.

Globalisation

This internationalisation of production – often called globalisation – has created intense competition in manufacturing, eventually forcing down profits in the manufacturing sectors of the higher wage economies, even for the companies like Ford and General Motors which have huge international production but have been slow to compete in adopting new production methods and technology.

A process of "de-industrialisation" has occurred. One estimate is that in countries in the rich countries' club, the Organisation for Economic Cooperation and Development (the OECD), a net 7.5 million jobs have been lost from manufacturing in the 40 years to 2002, and manufacturing has taken a decreasing share of their economies. Workers in the richer countries have lost relatively well-paid and secure jobs in manufacturing, often only being able to find jobs in the growing services sector, where the most rapidly growing sectors in terms of employment are mainly in lower paid, lower skilled and often insecure work.

For example in the USA, the US Bureau of Labor Statistics' projections are that the ten occupations providing the largest numerical increase in employment over 2006-2016 will be in retail, food preparation and service (including fast food), clerical work, personal and home care aides, caretakers and cleaners, and nurse aides – with only registered nurses and postsecondary teachers likely to be high paid[1].

[1] "Tomorrow's Jobs", US Bureau of Labor Statistics, Occupational Outlook Handbook, 2008-09 edition, http://www.bls.gov/oco/oco2003.htm.

Yet services in the OECD are now increasingly being provided from offshore too. This includes call centres, information technology services and computer software development, accounting and other business services. Business owners in the OECD are attracted by outsourcing to well educated staff in countries such as India and the Philippines with wage levels roughly 10% of those they have to pay at home.[2] This creates welcome opportunities for workers in India and the Philippines, though often in poor working conditions with unions suppressed, but at the same time it provides the business owners with a lever to hold down wages and working conditions in the OECD countries as well. Eventually, like in manufacturing, it reduces profits in these service sectors, and indeed recent research indicates leads to the longer term loss of skills and design capability[3].

Applied Greed: Private Equity

They used to be called "leveraged buyouts", and are now referred to under the name of "private equity investment". In these, a financier such as an investment bank or private equity corporation attracts funds from sources such as wealthy investors and pension funds. The financier looks for cheap companies which have highly valued assets or readily available cash. Using large proportions of borrowed money – perhaps 75 percent borrowed and 25 percent from its own sources – the financier makes what appears to be a generous offer for the target company. It then proceeds to take funds out of the acquisition in a number of ways including asset sales and loading it with debt, often accompanied by large scale job losses. Within three to five years the financier sells off the highly indebted but much slimmer and apparently more profitable company for considerably more than they paid in the first place. At least that is what the financier hopes, and what they often achieved in the rising share markets we have had for some decades. It can then repay any remaining borrowed funds, and is left with sometimes quite astonishing profits on their clients' money. The financier itself wins whatever happens through high fees paid on every part of the process, including a proportion of the profits. The companies they sell are very susceptible to failure because of their high debt levels and loss of their employees' expertise.

Financialisation and growing inequality

Capitalism in the rich countries has therefore had to find new ways to invest its money to create profits. As the attractiveness of productive enterprises in manufacturing and services fell, they turned to more immediately profitable – but much less productive – ways to use their money, through what is called the "financialisation" of the economy.

This can take many forms, many of which involve risk and use of high debt levels. An example is in the accompanying text box . This is not generally an exercise in creating new productive capacity. It can be little more than a financial trick which multiplies the returns for the investor when prices are rising. It allows high interest rates to be paid on loans, and so encourages rising interest rates which make other productive investment difficult.

So the focus has increasingly come onto the financial value of firms, rather than their productive value. The effect is to suck resources from productive investment into the financial sector. It has also led to major redistribution of income towards the financial high fliers (though not to ordinary bank workers!). And when the financial crash came, there was no 'de-coupling' between the financial and real economy because they had merged.

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[2] "The Impact on Advanced Economies of North-South Trade in Manufacturing and Services", by Robert Rowthorn, in "The Development Imperative: Toward a People Centered Approach". Hershberg, Eric, and Christy Thornton, eds. New York: Social Science Research Council, 2005.

[3] "Restoring American Competitiveness", by Gary P. Pisano and Willy C. Shih, Harvard Business Review, July-August 2009, pp.114-125.

The redistribution of wealth and income to greatly increase inequalities within countries has been a major feature of this period and has become grotesquely disproportionate to economically justifiable differences.

A recent study of the US concluded that

- Two-thirds of total income gains from 2002 to 2007 flowed to the top 1 percent of U.S. households, and that top 1 percent held a larger share of income in 2007 than at any time since 1928. The inflation-adjusted income of the top 1 percent of households grew more than ten times faster than the income of the bottom 90 percent of households.

- The share of the nation's income flowing to the top one-tenth of 1 percent of households increased from 7.3 percent of the total income in the nation in 2002 to 12.3 percent in 2007. This is the highest level going back to 1913, surpassing even the previous peak in 1928.[4]

This has left ordinary workers in the US in the doldrums. The average real wage for non-supervisory workers has risen just 6 percent in real terms in the 30 years since 1979 (though it rose 70% in the thirty years between 1949 and 1979)[5]. Meanwhile, executive salaries internationally have risen far faster, to an average of 39 times that of workers in manufacturing in the US and 20 elsewhere in a range of other richer countries (see the table on the next page).

Banking was once in the comparatively dull business of getting deposits from people who saved, and lending for mortgages for housing and to businesses wanting to invest to expand their production, with relatively modest profits. The banks saw the much larger returns being made, and began lobbying to remove rules which stopped them making such profits. In the US, the Glass-Steagall Act separated traditional deposit taking and lending from much more risky investment banking in order to protect depositors' savings from the risk of speculative investment.

Both US banks and European Union trade negotiators lobbied against it and it was repealed in 1999. If the Act were still in place, the US financial crisis may well have been kept to investment banking and had far less effect on the stability of the financial system.

This was just one example of the deregulatory policies that have been followed in the US, beginning with President Ronald Reagan but continuing through the Clinton and Bush years until the present. Others examples include the successful lobby to ensure that derivatives were not covered by the Commodity Futures Modernization Act in 2000 and the decision by the Securities and Exchange Commission in 2004 to allow leverage which averaged 1:33, up from a prior average of 1:12.

Simon Johnson is a former chief economist for the International Monetary Fund – an organisation which bears a large responsibility for encouraging these kinds of developments in both the developing world and the developed countries. But he recently described this rapid expansion of the financial sector at the expense of the productive economy as a "Quiet Coup"[6]. In an article in the magazine *The Atlantic* he described the process:

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[4] "Top 1 Percent of Americans Reaped Two-Thirds of Income Gains in Last Economic Expansion", by Avi Feller and Chad Stone, Center on Budget and Policy Priorities, 9 September 2009.
[5] Data from the Economic Policy Institute http://www.epi.org/publications/entry/tables_figures_data/. Workers' average wage is the average private non-supervisory wage.
[6] "The Quiet Coup", by Samuel Johnson, *The Atlantic*, May 2009, http://www.theatlantic.com/doc/200905/imf-advice, accessed 5 April 2009.

TABLE 3.42 CEO pay in advanced countries, 1988-2005 ($2005)

	CEO compensation					Foreign pay relative to U.S. pay, 2005 U.S. = 100	
	$ Thousands			Percent change 1988-2005	Ratio of CEO to worker pay, 2005*		
Country	*1988*	*2003*	*2005*			*CEO*	*Worker*
Australia	$180,760	$737,162	$707,747	292%	15.6	33%	82%
Belgium	383,718	739,700	987,387	157	18	46	99
Canada	423,358	944,375	1,068,964	152	23.1	49	83
France	404,331	780,380	1,202,145	197	22.8	56	95
Germany	412,259	1,013,171	1,181,292	187	20.1	55	106
Italy	342,492	893,035	1,137,326	232	25.9	53	79
Japan	502,639	484,909	543,564	8	10.8	25	91
Netherlands	396,403	716,387	862,711	118	17.8	40	87
New Zealand		476,926	396,456	–	24.9	18	29
Spain	352,006	658,039	697,691	98	17.2	32	73
Sweden	234,670	743,160	948,990	304	19.2	44	89
Switzerland	510,567	1,263,450	1,390,899	172	19.3	64	130
United Kingdom	453,485	881,047	1,184,936	161	31.8	55	67
United States	805,490	2,386,762	2,164,952	169	39	100	100
Non-U.S. average	383,057	794,749	946,931	173	20.5	44	85

* Ratio of CEO compensation to the compensation of manufacturing production workers.

Source: Authors' analysis of Towers Perrin (1988, 2003, and 2005).

Source: Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, "The State of Working America 2008/2009". An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2009.

> "From 1973 to 1985, the financial sector never earned more than 16% of domestic corporate profits. In 1986, that figure reached 19%. In the 1990s, it oscillated between 21% and 30%, higher than it had ever been in the postwar period. This decade, it reached 41%. Pay rose just as dramatically. From 1948 to 1982, average compensation in the financial sector ranged between 99% and 108% of the average for all domestic private industries. From 1983, it shot upward, reaching 181% in 2007."

More recent methods for getting these super profits include the use of so-called derivatives, and what is called "securitisation". Derivatives take a wide range of forms but they are essentially bets on changes in the price of commodities (such as grain or oil) or other financial instruments (such as bonds or exchange rates). They have a useful purpose in being a form of insurance for those who genuinely trade in the real items, but they are also a fruitful and very risky way to speculate solely for financial gain. Securitisation was at the heart of the latest crash. It is a way to resell loans such as mortgages, packaged up into bundles, so that the banks could multiply the use of their funds and the resulting profits. This was just another example of the financialisation of the economy – mortgages not to help people buy a home, but to increase the rate of profit for the financial sector.

The Financial Crisis

In the case of the securitised mortgages involved in the US banking crisis, the mortgages were bundled up in a way that buyers were not aware of the riskiness of them, nor able to calculate the risk for themselves. Rating agencies such as Standard and Poor's rated the securities but failed in their responsibility to identify the risks. When the people who had been given mortgages they could not afford began to default on them in large numbers, it was not only the banks that loaned them the money that were affected, but a whole line of other financial intermediaries which had bought securitised loans. They lost confidence that any of the securities they held were as secure as they had been assured, prices collapsed and the financial system seized up.

Things were even more complicated. A form of derivative could be bought to insure against the risk, called a Credit Default Swap. The then largest insurance company in the world, AIG, specialised in these and for a period made huge profits from them. In fact it had nowhere near enough reserves to deal with a widespread collapse, and it crashed along with the banks.

When the financial system crashed to a halt, AIG and many banks required bailouts unprecedented in their size. AIG received US$170 billion and is now government owned; the US has provision for a total bailout of US$1 trillion to cover the banks and mortgage lenders, 29 of which became government run.

The financial crisis quickly spread to Europe and the rest of the world because of the high level of integration between the major economic blocs and the dismantling over the past years of regulations and policies that would have helped contain it. The integration is in the form of international spread and ownership of the largest financial institutions, high international debt, and enormous international trading in currencies, derivatives and financial services. It has been encouraged to grow as a result of services and investment agreements in the World Trade Organisation, in bilateral and regional agreements and under the pressure of organisations such as the International Monetary Fund.

In Europe the financial crisis also resulted in huge government involvement in the financial sector, including massive bailouts, and in the U.K. partial or full nationalisations of major banks. Without these actions the financial system was at risk of collapse. It is not clear even now that these problems have been fully resolved. Internationally, governments have provided about US$1.9 trillion to replace the capital reserves of banks and to purchase their otherwise unsaleable assets. Yet there are signs that many banks have returned to the same patterns of risk taking and debt leverage, encouraged by huge bonuses to employees, that preceded the crash. The biggest US banks – Goldman Sachs, JPMorgan Chase and others – which have grown even bigger due to takeovers as a result of the crisis and have received tens of billions of US government money "are once more betting big on bonds, commodities and exotic financial products, trading that nearly stopped during the financial crisis" wrote Stevenson Jacobs of Associated Press[7]. As an example, he reported that "the five biggest banks' average potential losses from a single day of trading topped $1 billion, up 76 percent from two years ago", and "they're still packaging risky mortgages into securities and selling them to investors, who can earn higher returns by purchasing the securities tied to the riskiest mortgages." Bailouts came quickly, but new financial regulation has been slow, in large part because of resistance from the financial sector. For example a US plan to create an agency to oversee the marketing of financial products to consumers is being "fiercely" opposed by industry lobbyists. There is similar resistance to effective international regulation.

Economic crisis and the response

The financial crisis spread to the real economy around the world. Companies could not get loans to expand or to renew existing debt. Property prices fell dramatically in some countries. These events led to individuals and companies cutting their spending, threatening a downward spiral in which other companies fail because they cannot sell sufficient products, and purchasers cannot get the finance to buy them. This particularly affected international trade and

[7] "Risk-taking is back for banks 1 year after crisis", by Stevenson Jacobs, Associated Press, 13 September 2009, http://www.google.com/hostednews/ap/article/ALeqM5jataBsaRmjQzL19LilNAAcpFxLYQD9AMGK9O0.

manufacturing. One example was the bankruptcy of major US car manufacturers. They had to be bailed out by the US government, and in the case of Chrysler and General Motors, their union.

This led to falls in exports by major economies that are quite unprecedented in recent decades, recalling the Great Depression of the 1930s. Just to give a few examples: in January, Japan's exports had almost halved from a year earlier – they fell by 46 percent. The *New York Times* reported on 11 April that "The total value of exports shipped by 15 large exporters in February was nearly a third lower than in the same month of 2008 – a rate of fall much faster than anything seen in recent recessions." The countries included China, Taiwan, Japan, France, Canada, Germany, the U.K., Hong Kong, Mexico, Brazil, Argentina and the US. The OECD forecasts a fall in world trade of 16% for 2009, after years of uninterrupted growth. Though there are some cases of deliberate actions to protect local economies from imports, these huge falls are primarily due to collapse in demand, not protectionist actions. Many economies are reducing in size faster than they ever grew. Europe's powerhouse, Germany's economy, for example, contracted by 3.8% just in the first three months of 2009. Iceland's economy is close to collapse and it is refusing to pay its debts at the rate creditors demand, and Ireland is not far behind. The OECD expects to contract by 4.1 percent in 2009 and its unemployment rate is forecast to be 8.3 percent by the end of 2009, and 9.8 percent in 2010. Some observers see "green shoots" of hope – increases in spending and bank lending for example – but others point to continued uncertainty about the state of US and European banks, and the depth of the fall in output to date. There is expected to be a weak recovery in output in 2010, but with continuing high levels of unemployment.

To the extent there is recovery, it is because there have been large government stimulus programmes (averaging around 4 percent of GDP in the OECD) which used government spending or tax cuts, funded largely from debt, to partially replace the huge falls in private consumption and investment which were occurring. This approach was the opposite from that used in the Great Depression of the 1930s, in which governments behaved like the private sector, cutting spending in reaction to falling tax income, thus deepening the downturn. Failing banks and large manufacturers have received dramatically large infusions of funding, and some have been nationalised. Central banks have rapidly lowered interest rates (in some cases to zero) and in many cases increased the money supply directly ("quantitative easing", or "printing money"!) as part of the stimulus. The need for government, not just for alleviation of social ills and enforcement of laws, but for the survival of capitalism, has rarely been more apparent.

Neoliberalism

The economic theories which were adopted and further developed to justify the approach to managing an economy which encouraged these trends are commonly known as "neoliberalism". It is no coincidence that they suited the interests of the large corporations which were at a stage where they needed to expand into foreign markets in order to maintain their growth in size and profitability, and particularly the banks and other financial corporations which provided the funding for the expansion. Neoliberalism has at its heart the belief that unregulated markets will produce optimal results for an economy, and that there is little role for government other than to set and enforce the rules that allow the market to function. The only exception is when markets "fail" – such as the private sector not building enough roads for the economy to function smoothly – but it is rarely conceded that failures of sufficient magnitude ever occur to justify government involvement. It favours tax reductions, increased user charges, privatisation, deregulation of private sector activities, and opposes use of government spending to stabilise the economy. It sees the function of central banks as being solely to create price stability, with any use of the money supply for social or economic development purposes condemned as inflationary and self-defeating because of the belief that people behave "rationally" (in the sense of acting in an economically optimal way) and therefore will perfectly anticipate the way the economy will move. In the public sector, it was accompanied by theories of "New Public

Management" which brought business management methods into remaining public services and restructured them so they could easily be contracted out through a split between policy formation, funding and provision of services.

Internationally, the drive towards deregulated trade and investment through the World Trade Organisation (WTO) and the rapidly growing number of bilateral and regional trade and investment agreements is another expression of neoliberalism, entirely consistent with its domestic counterpart. These agreements frequently enforce neoliberalism in countries despite the wishes of their electorates. The WTO says on its web site: "Quite often, governments use the WTO as a welcome external constraint on their policies: 'we can't do this because it would violate the WTO agreements'"[8]. The WTO may view it as welcome, but this stance neglects the disempowerment of democratic processes. Even if governments signing on to these agreements welcome the constraints (and that is not always true – some are dictatorships or have been forced to sign up under conditions required by the International Monetary Fund or World Bank) future elected governments which may want to change the rules are also bound. The effect has been what has been described as "kicking away the ladder" of development possibilities from developing countries which wished to use methods that virtually every developed country had used to get to get up to their advantaged position. It reduces the economic development policy options in countries like New Zealand too.

Neoliberalism came into its ascendancy under Ronald Reagan in the US and Margaret Thatcher in the UK, and in its purer form is largely associated with the Anglo-Saxon countries – the UK, USA, Australia, New Zealand and Canada. Because of the influence of the US and the UK in agencies such as the International Monetary Fund and the World Bank they were able to use their power to force neoliberal policies – often called the "Washington Consensus" – on countries which got into debt, mainly in the developing world and in the countries formerly in the Soviet bloc – frequently with disastrous social consequences which take decades to recover from.

There are other models

Neoliberalism did not take over the world entirely. Mainland European countries for example maintained much higher levels of government involvement in the economy, and more social programmes, than the Anglo-Saxon extremists. The rapidly developing East Asian economies, often quoted as poster children for the free market, in fact had very direct government involvement in their economies ranging through the state-dominated socialism of China and military dictatorships in South Korea which deliberately built its industrial capacity, to quasi-democracies like Singapore and Malaysia with strong government involvement through state owned firms, subsidies or tax concessions to foreign investors and exporters, and management of the exchange rate and investment from abroad. These countries have survived the crisis much better than the rich countries of the OECD. China and India for example have maintained strong growth rates – China grew 7.9 per cent in the June quarter for example. There are obviously many elements of these political economies that are unacceptable and do not therefore provide an alternative model for New Zealand, but they do illustrate that there are a wide range of successful alternative economic policies which put considerably less faith in unconstrained markets than the neoliberal prescription.

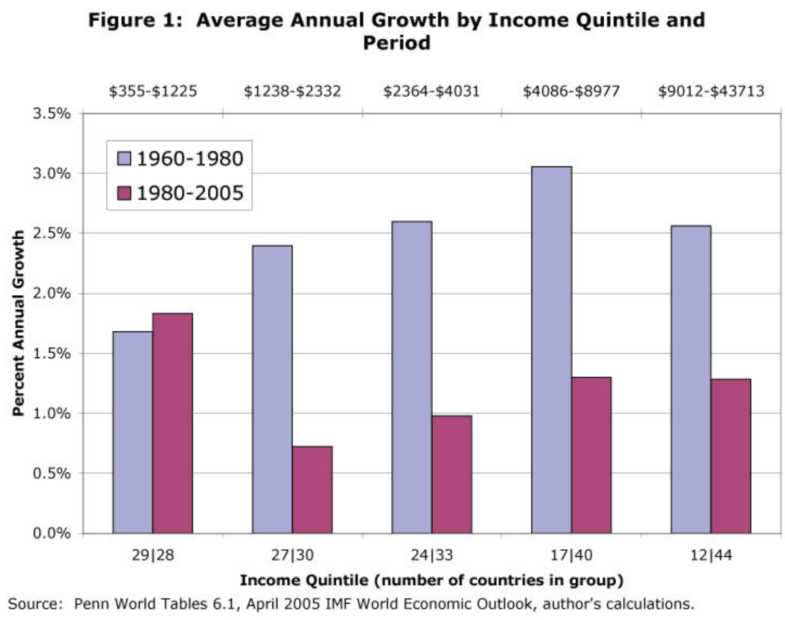
The Nordic countries (Norway, Sweden, Denmark, Finland) in particular successfully maintained strong welfare states and a recognised role for unions. These countries not only have among the highest living standards in the world, but are also regularly rated highly on indicators that aim to measure quality of life. By maintaining high levels of taxation and government expenditure they have been able to fund relatively high basic benefits providing

[8] http://www.wto.org/english/thewto_e/whatis_e/10ben_e/10b10_e.htm, accessed 9 October 2009.

employment and income security, despite an increasing openness of their economies. Either through relatively centralised wage fixing structures or their taxation systems they have maintained lower levels of income inequality than most other high income countries. The wage fixing structures and flexibility in employment has encouraged more highly productive industry. They have large supplementary pension funds which help fund these benefits and include union owned funds, giving unions some ownership of industry. There is mandated staff representation on boards of the firms they work for, and requirements for agreement or consultation with worker councils in firms as well as with unions. While facing some problems from entry (for all but Norway) to the European Union and the pressures of open economies (and particularly open capital markets which have reduced or removed their control of their exchange rates and thus their ability to manage inflation), they provide a economic model which combines high wages, income security, highly productive industry with high government intervention in the market.

Promises unfulfilled, increasing distress

For most of the world however, the decades of the 1980s and 1990s were of increasing social distress and – despite the promises – slower economic growth. Inequality climbed in most countries, poverty deepened in the Third World. For example, Weisbrot and Baker[9] compared the 25 years (1980-2005) in which neoliberal policy prescriptions were dominant with the prior two decades (1960-1980). They found that "the past 25 years (1980-2005) have seen a sharply slower rate of economic growth and reduced progress on social indicators for the vast majority of low- and middle-income countries". They divided countries into five groups (quintiles) from the one-fifth which were the poorest countries to the one-fifth which were the richest. The rate of growth fell for all quintiles except the lowest, which only improved because of the performance of India and China. The accompanying figure shows the comparative average growth figures for each quintile. Social indicators whose improvement also slowed included life expectancy, infant, child and adult mortality, and education spending.



A common element was deliberate government actions to weaken unions or to deunionise the workforce. Some of the deunionisation was accomplished by the "outsourcing" of production to countries where unions are weak or actively suppressed. The displaced unionised workers often could find jobs only in deunionised industries. Some was due to companies closing plants in highly unionised areas and reopening them in areas in the same country where unions were not as active, such as manufacturers in the US moving production to the Southern states. New factories set up by multinational car manufacturers such as Toyota, Honda and Mercedes Benz

[9] "The Scorecard on Development: 25 Years of Diminished Progress", Mark Weisbrot, Dean Baker, and David Rosnick, Center for Economic and Policy Research, Sep 2005.

were also set up in the South, avoiding unionised workers. But there were also widespread government actions to take away union rights to organise, led by the Thatcher Government in the U.K., Reagan in the US and the National government in New Zealand with the Employment Contracts Act in the 1990s.

These trends were entrenched by regular financial and economic crises. Economic historian Michael Bordo who recently visited New Zealand estimates that, after a relative stable period after the Second World War during the Bretton Woods era of exchange rate and currency controls, "all crises appear to be growing more frequent. The crisis frequency of 12.2% [per year – roughly every eight years] since 1973 exceeds even the unstable interwar period and is three times as great as the pre 1914 earlier era of globalization"[10].

Tobin Tax

This is a small tax on international currency transactions which it is suggested would make much speculation unattractive and thus reduce the volatility of exchange rates.

A very high volume of transactions in the foreign exchange markets are aimed at profiting from small differences in interest or exchange rates – differences that can be magnified to large profits by making many very large trades. A small tax on these trades (perhaps between 0.1 and 2 percent) would mean many of them would no longer be profitable and would thereby greatly reduce the volume, volatility and risk in the current currency markets.

At April 2007, US$3.2 trillion was traded *daily* on international markets, a 69 percent increase over the previous three years according to the Bank for International Settlements' *Triennial Central Bank Survey 2007*. That was about 24 times the value of world goods and services trade flows.

The idea was proposed in the early 1970's by prominent economist James Tobin. He described it as "throwing sand in the wheels" of global finance to make short-term purely financial movements uneconomical without affecting trade. The primary aim is not to raise revenue, though it has been suggested as a source for international economic and social development.

Dismissed for many years as unworkable, there are now many experts who believe that some variant of it is feasible and only requires the political will. There is continuing debate over its effectiveness and implementation. Though some believe it would be feasible even for individual countries to implement unilaterally, it would be most effective if supported internationally to prevent avoidance.

The challenge to orthodoxy

The crisis has challenged orthodox thinking and assumptions. No longer can it be claimed that neoliberalism might be brutal but it brought growth and increasing prosperity. Workers around the world and the poor in developing countries had plenty of evidence to the contrary, but the crisis forces even those benefiting from these policies to confront that reality. The economic theories that underlie and are used to justify it are equally challenged. It leads to questioning of assumptions about human behaviour that have underpinned recent economic theory (for example that humans behave deliberately and rationally to optimise their opportunities far into the future, the concept of "rational expectations"). The implications are wide-ranging and not limited to recovery from the immediate crisis. It is simply not possible to pretend that when the immediate crisis subsides, the world can go back to "business as usual".

This is therefore a critical point in the world's economic development, which demands rethinking of the place of government, the monetary system, and international economic and

[10] "Global shocks, Global Financial Crises: How Can Small Open economies like New Zealand Protect Themselves? An Historical Perspective", by Michael D Bordo Rutgers University and NBER, 2009 Visiting Professorial Fellow in Monetary and Financial Economics at the Reserve Bank of New Zealand and Victoria University Wellington, Public lecture at the Law School, Victoria University Wellington 16 July 2009.

financial regulation. A consensus has emerged that greater regulation of international financial markets and institutions is necessary.

Just how far that should go though is hotly debated, with financial interests, and nations with strong financial sectors, often resisting the degree of regulation that is needed.

One mark of the change of thinking is support from several centres of power for some form of "Tobin tax" to reduce financial speculation and risk taking (see box on previous page). The President of France, Nicolas Sarkozy, the German Chancellor, Angela Merkel and her finance and foreign ministers, and the chair of the UK's Financial Services Authority, Adair Turner, have all supported serious investigation of this tax in recent months and they appeared to have had some support at the Pittsburg G20 Summit meeting in September[11].

The rethinking will take place in the context of greatly changed international power relationships. With the US economy greatly weakened and its international prestige severely damaged during the Bush years, and with Europe not in a position to take over the economic and political leadership role, China and India, and to a lesser extent Russia and Brazil, will become much more important and influential. It is symbolic, but a response to reality, that they are challenging the role of the weakened US dollar as the international reserve currency. This is now being reflected in the emergence of the G20 to replace the predominance of the G8, but we have yet to see whether the results will be positive or negative for working people.

It also takes place when the world is at last acknowledging the environmental consequences of its unprecedented growth in production over the last century. Climate Change is just the biggest of these consequences: the looming shortage of resources such as oil and clean water, pollution, and the extinction of species are other examples. Climate Change will have significant effects not only on our environment but on the way the economy works and its growth and size. It will stimulate the development of new processes and products, but it will also require rethinking of our attitude to economic growth. We will need to distinguish between raising our standards of living – improving health, decent jobs, fairer income and wealth distribution, safe communities and safe world, more leisure – from raising our incomes. Climate change requires an effective response to ensure that the damage it threatens never becomes a reality, and it requires a just way to achieve that transition that ensures it does not become another cause for heightened inequality. But it also requires a rethinking of how the changed economic and physical environment can be made sustainable while still improving people's lives.

And in New Zealand...

The Douglas/Lange government that came into power in 1984 introduced neoliberalism to New Zealand. It was hailed by advocates as perhaps the most pure example of those policies anywhere in the world. The 1984-1990 Labour government put into place a radical agenda of deregulation of many parts of the economy including the financial sector, the corporatisation and eventual sale of many parts of the state sector, changes to the taxation system including reducing income taxes in favour of GST, the systematic introduction of "new public management" processes into the remaining public service, removing subsidies on staple consumer goods and to farmers, and opening the economy by the removal of tariffs, import quotas, and currency and capital controls, including floating the currency.

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[11] Examples of expert support for the feasibility of the tax include "On the Feasibility of a Tax on Foreign Exchange Transactions", Report To the Federal Ministry for Economic Cooperation and Development, Bonn, Germany, by Paul Bernd Spahn, Goethe-Universität, Frankfurt am Main, February 2002; and "We should put sand in the wheels of the market", by Avinash Persaud, 27 August, 2009, FT.com.

The National government from 1990-1999 continued this work. It sharply reduced social benefits, attempted to effectively de-unionise the workforce through its Employment Contracts Act and carried out further widespread privatisations. It continued the deregulation of international trade and investment with further tariff removals, opening many services to international competition, and removing many controls on overseas investment.

The effects included many people thrown out of work in manufacturing as firms closed in response to international competition, greatly increased poverty levels, particularly as a result of the high unemployment levels throughout the period and the cuts in social benefits, and stagnating or falling real wages as businesses used unemployment and their greatly increased bargaining power to refuse wage increases. That in turn led to reliance by business on low wages rather than increases in productivity through investment. For example, Deardorff and Lattimore[12] found in 1999 that

> By 1986, the importable [that is, import substituting] sector supported by trade barriers, was both more capital intensive than the exportable sector and more intensive in all categories of higher labour skills than exportables... This group had nearly halved by 1996 as the tradeable sector shed labour during the early phases of the economic reforms. ... The results suggest that trade liberalisation, trade agreements and improved market access over the decade 1986-96 might have actually improved the distribution in the sense of raising relative returns to employees with lower qualifications and, presumably, lower wages.... The traded goods sector is not intensive in the use of employees, of either sex, with degrees or advanced tertiary training.

Many of the privatisations were disastrous failures which led to asset stripping or expensive failed overseas adventures rather than improved services. Some such as Air New Zealand and Rail were reversed; others, such as Telecom and the electricity system, present continuing problems of regulation.

Unsuccessful in its own terms

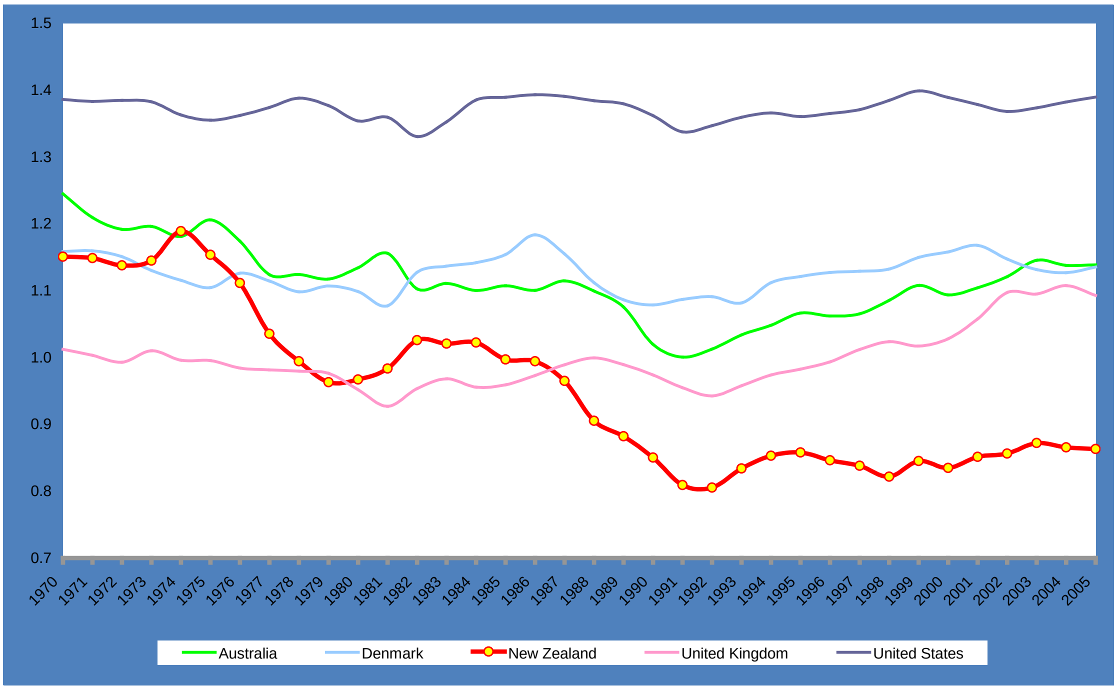
It has not led to economic success even in neoliberal terms. Real growth in national output (GDP) has been intermittent and despite periods where it exceeded the OECD average, including years during the last decade, has failed to keep up: in terms of national output per person (GDP per capita) New Zealand has steadily fallen further behind in its OECD rankings.

Our labour productivity has risen more slowly than Australia and most of the OECD. It has been held back by insufficient investment (low capital intensity) and low “multi-factor productivity” – usually associated with less tangible aspects of production such as quality of management, and the skills, experience and production-specific knowledge which workers bring to the job.

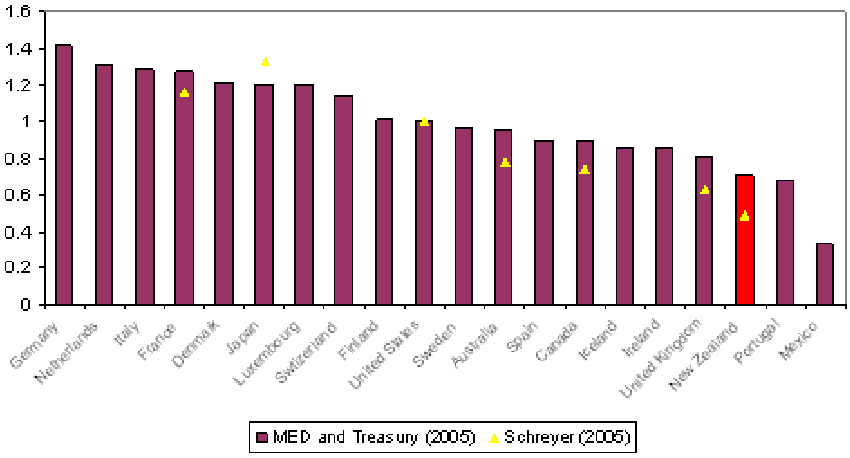
International competitiveness has been problematic: our international goods and services trade has been in deficit for most of the last decade and the importance of international trade in our economy is above the OECD average but unspectacular compared to other small economies. As a result of trade liberalisation, exports have lower value-added than prior to the 1970s, according to a recent study[13]:

[12] “Trade and Factor-Market Effects of New Zealand's Reforms”, by Alan Deardorff and Ralph Lattimore, New Zealand Economic Papers, June 1999 v33 i1 p71.
[13] “Economic progress and puzzles: Long-term structural change in the New Zealand economy, 1953-2006”, by Ralph Lattimore, Trinh Le, Iris Claus, and Adolf Stroombergen, NZIER working paper 2009/6, October 2009.

"Higher levels of import content in exports also began in 1977 and have carried on ever since. This might be explained by the gradual reductions in import protection that occurred in the 1970s, particularly those providing businesses with duty free access for imports of inputs. The higher level of import content has coincided with a decline in the value added content of exports since the early 1970s."



Real GDP per capita as ratio of OECD average[14]



Low Capital Intensity - OECD countries in 2002: capital per unit of labour[15]

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[14] From "Economic Development Indicators 2007", Ministry of Economic Development, The Treasury, Statistics New Zealand, dec 2007, Figure 1.6, p.23. See also www.med.govt.nz/indicators.

[15] "Investment, Productivity and the Cost of Capital: Understanding New Zealand's 'Capital Shallowness'", New Zealand Treasury Productivity paper 08/03, April 2008, p.6.

Overseas investment and the banking system

The greatest success of the neoliberal regime has been in attracting overseas investment. We have one of the highest concentrations of foreign direct investment (investment where control of the company is intended) in the developed world, equivalent in 2008 to 42 percent of GDP compared to an average of 25 percent in other developed economies and the world as a whole. (We have however one of the lowest levels of net investment, comparable to eastern European states, due to low levels of direct investment by New Zealand residents overseas.) But the direct investment into New Zealand has been of low quality, usually in the form of takeovers rather than new "greenfield" investment introducing new technology and creating employment. According to the United Nations[16], there was an average of only 24 greenfield foreign investments between 2004 and 2008. That compares to an average of 163 approved each year by the Overseas Investment Office over that period, and many more that escaped its scrutiny. During the 1980s and 1990s foreign direct investment was associated with the problematic privatisations already noted: the sale of privatised state assets "accounted for approximately 42% of total inbound investment to New Zealand over the decade [1986 to 1996]"[17]. From the late 1990's, a large part has been in Private Equity and investment company buyouts of companies such as the Whitcoulls and Bennetts Government Bookshops, Independent Liquor, Tegel Chicken, Yellow Pages, MediaWorks (owner of TV3 and the second largest commercial radio network), waste companies, power company Powerco, the former Apple and Pear Marketing Board's marketing company, Enza, and its fruit juice company, Frucor, chains of facilities for care of the elderly, and many more, with many of them quickly resold in highly indebted conditions. We have seen few of the benefits that it was claimed would follow. A 2008 Treasury paper acknowledges for example that "some analysts argue that New Zealand receives substantial foreign direct investment inflows but has yet to benefit from spillovers [of expertise and new technology into the rest of the economy]"[18]. That is not surprising given the nature of the investment.

Another part of the overseas investment has been exceptionally high levels of international debt. The cost of paying the dividends and interest on those debt and equity investment liabilities has given us one of the highest current account deficits in the OECD, exceeding the contribution of our primary industries to the output of the economy (in the year ended March 2009, primary industries contributed 7.1 percent of GDP; the deficit on investment income was 7.4 percent). About one dollar in five from exports of goods and services goes on servicing liabilities; the financial debt alone ($256 billion at March 2009) would take four and a half years of exports to pay off. Bank debt accounts for over 70 percent of the international debt, and has been used largely to finance mortgages, contributing to the property price bubble of recent years and encouraging excessive investment in property compared to productive investment by firms. Related to this, and a direct result of the opening of capital markets is an exchange rate which is chronically over-valued as far as the balance of trade is concerned. It burns off exporters through both the high value of the New Zealand dollar and its volatility. The dollar – the 11th most traded currency in the world in April 2007 according to the Bank for International Settlements[19] – is largely driven by international capital movements rather than the "real economy" of goods and services trade.

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16 "World Investment Report 2009", UNCTAD, September 2009, p.212.
17 "Inbound Investment: Facts and Figures", Foreign Direct Investment Advisory Group, August 1997, p.6.
18 "Investment, Productivity and the Cost of Capital: Understanding New Zealand's 'Capital Shallowness'", New Zealand Treasury Productivity paper 08/03, April 2008, p.19.
19 "Triennial Central Bank Survey", Bank for International Settlements, December 2007, p. 11. http://www.bis.org/publ/rpfxf07t.pdf.

The central role of the Big Four banks in New Zealand, ANZ National, ASB, BNZ and Westpac, in accumulating that debt leads to questions as to the regulation of our banking system. While the Australian and New Zealand banking systems survived the financial crisis relatively unscathed, it is not clear that it is due to the quality of supervision and regulation. For example, the ANZ was in fact involved in similar practices to the US banks through its half-owned associate, ING (NZ) Ltd. Two of ING's managed funds led to large losses for 13,000 investors, 2,800 of whom invested in the funds as customers of ANZ. The banks use off-balance sheet entities[20]. These can hide the state of indebtedness of a bank from regulators, investors, and auditors. So it was not that high-risk practices were prevented in the two countries' systems, but that there appears not to have been the incentives for the behaviour that led to them becoming widespread.

A former Governor of the Reserve Bank of Australia, Ian Macfarlane, has suggested the main reasons may be firstly the lack of competition between the Big Four. This is enforced in Australia by the "four pillars" policy which protects the banks from overseas takeover and prevents them from taking over each other. Secondly, he suggests that it may paradoxically be the lack of savings in Australia that meant the banks did not invest in the high risk US markets. He thought "they would have if they could have". As a result, one commentator described the result as "dumb luck".[21] Other observers have made similar observations including ANZ National Bank chief executive Jenny Fagg, and financial journalist Ian Verrender[22]. The banks' huge tax-avoidance strategies demonstrate their willingness to be ruthless in search of profit.

New Zealand has a high degree of dependence on the Australian banking system and its regulatory settings. It may be simply "dumb luck" this time that having all our eggs in that basket was favourable to us. There are therefore a number of reasons to consider whether ownership of our major banks needs regulation. In addition, when considering the soundness of our financial system we should not forget the collapse of the finance company sector which has lost investors hundreds of millions of dollars. Further consideration of suitable supervision and regulation of New Zealand's financial system is therefore merited in the light of the international and domestic financial and economic crisis.

The crisis has also shown that any one of these banks is "too big to fail". The financial system would be at high risk if failure of any of the large banks was allowed to occur. This has required the risking of tens or hundreds of billions of public funds to guarantee their continued viability. Even if the current crisis is over (which is not yet assured) banks cannot ever say again that they are not dependent on government support.

Improvements in all of these trends were explicit aims of the changes to the economy since 1984. But with its current levels of international liabilities and the level of income required to service those liabilities, New Zealand's economy is not sustainable.

The mediocre results cannot be blamed on lack of trying. The neoliberal prescription for growth is to get the business conditions right and business growth and international competitiveness will follow. As a result New Zealand regularly ranks near the top of indexes designed to measure business-friendliness – the Economic Freedom Index (where we were third in 2008), Ease of Doing Business Index (second in 2007/08), and Global Competitiveness Index (24th in 2008-9, lower partly because we have a small market size). All of these include measures that imply

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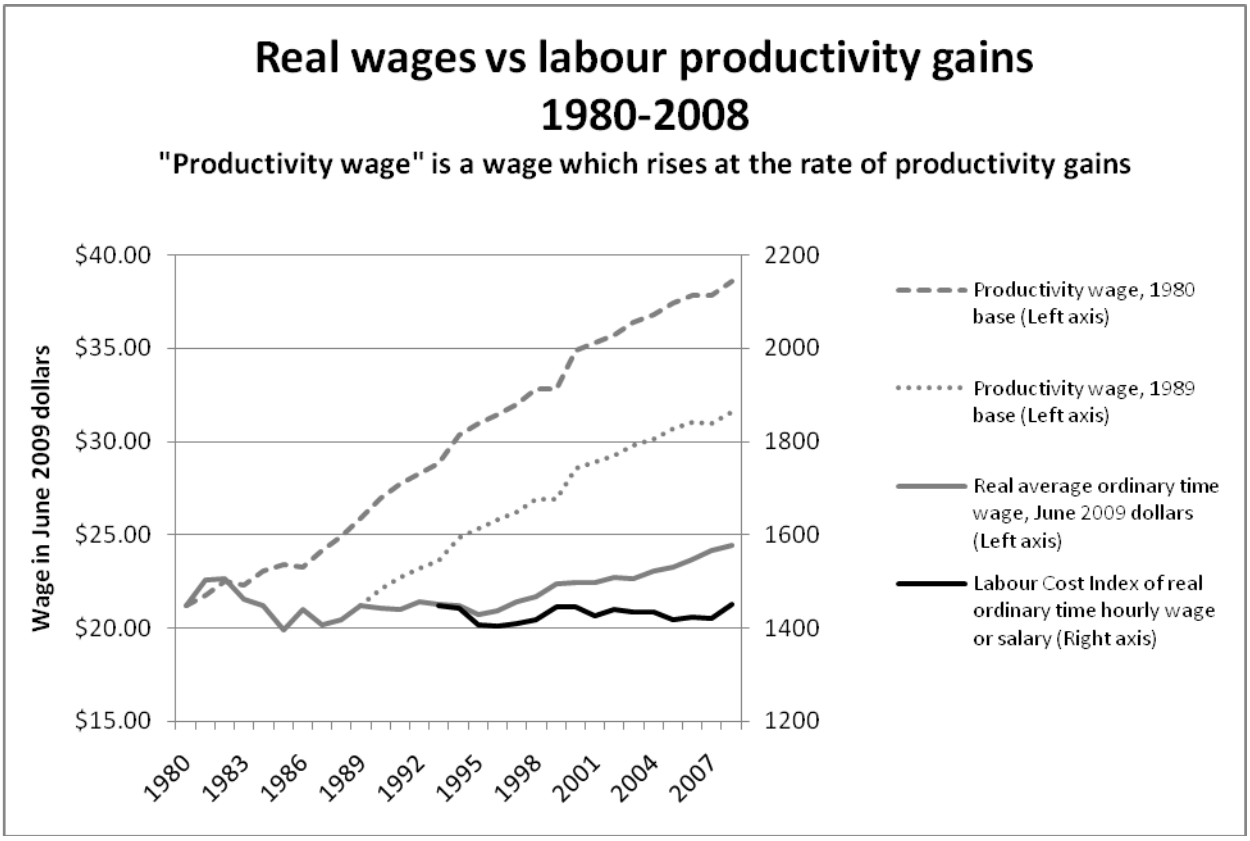
[20] See for example http://www.converge.org.nz/watchdog/15/06.htm.
[21] "Saved by dumb luck", by Alan Kohler, *Business Spectator*, 2 March 2009, http://www.businessspectator.com.au/bs.nsf/Article/Foundational-fluke-$pd20090302-PR559, accessed 6 March 2009.
[22] "Warning on new bank regulation", by Roland van der Bergh, *Dominion Post*, 21 September 2009; and "Easy money saved the day", by Ian Verrender, *Dominion Post*, 25 June 2009, p.C4, reprinted from the *Sydney Morning Herald*.

greater insecurity or a lower social wage for workers, and the International Trade Union Confederation has publicly criticised the Global Competitiveness Index for this reason.

Work on economic development since 1999 was more deliberate and strategic, with the formation of the Ministry of Economic Development and New Zealand Trade and Enterprise, prioritising particular areas of the economy, providing assistance to exporters, and a range of activities aimed at raising productivity with tripartite participation, but improvements have come slowly with the above problems still of concern.

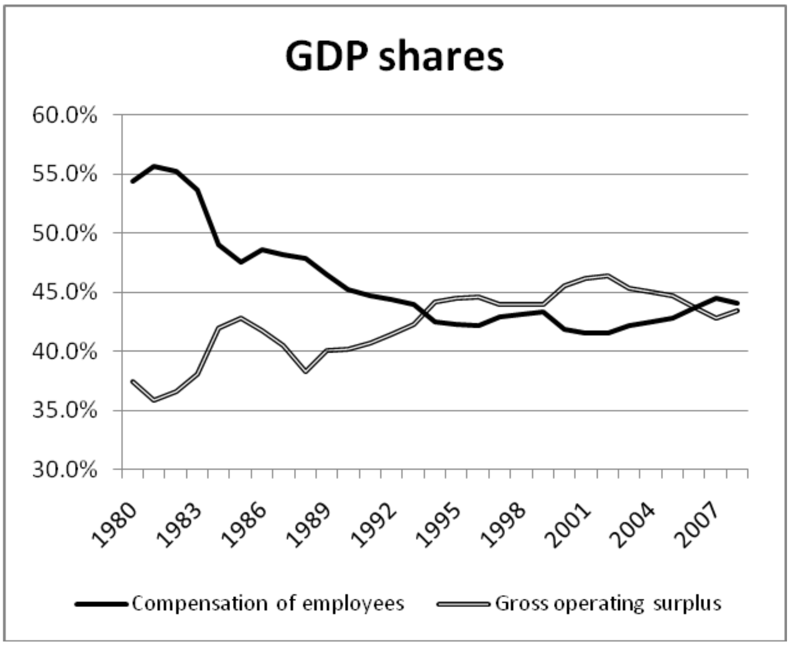
Over this whole period, and especially since the signing of the agreement which created the World Trade Organisation in 1995, New Zealand has become party to numerous trade and investment agreements which, while opening markets for our traditional agricultural exports, have restricted our range of options to support and encourage new exporters and those competing with imports while they build the capability and size to stand on their own.
The agreements have reached well beyond goods markets into services (affecting public and cultural services like education and the media), investment (greatly restricting our ability to regulate investment and require conditions such as job creation, local content and exports), the cost and restrictiveness of intellectual property such as copyright and patents, and food and animal health standards among other areas.



The effects on people – unfair wages

Worse, though, have been the effects on working people and beneficiaries. Ordinary time hourly wages and salaries as measured by the Labour Cost Index have fallen by 1 percent in the 17 years it has been recorded (since December 1992). To go back further we must look at the average ordinary time wage, which additionally reflects recognition given to individual workers in their pay and changes in the composition of employment in the economy. Even it has increased only 18 percent in real terms (that is, after taking account of price rises) in the 29 years since 1980. That is still not the full story. When labour productivity increases are taken into account, wages in 2008 should have been around 56 percent higher than they were. Even if we look only at the 20 years since 1989, real wages still rose 18 percent to 2009, and a real wage 28-31 percent higher could have been justified in 2008 by productivity gains. So the average ordinary time wage could have been $38.60 in 2008 if it had received its share of the productivity gains since 1980, and $31.60 if it was only since 1989. Instead it was $24.47. Further, as discussed below, the *average* wage is not a good guide to what workers actually receive. Most workers receive less than the average wage, and increasing inequalities in New Zealand mean distribution of gains has been very uneven.

In other words, business has taken almost all the gains of labour productivity. There has been a long term trend which has changed the balance in the economy between income to employees and returns to capital – "Gross operating surplus" or profits and interest, in the accompanying figure. Until 1993, employees received a greater (though rapidly falling) share of the economy's output than capital did. From 1994 until 2006 the position was reversed. Part of that was rising numbers of self-employed due to layoffs forcing employees into contractor rather than employment relationships, but part was simply the fall in wage and salary incomes through falling pay and increased unemployment. The imbalance in how the growing production of the economy is shared (which also shows up in New Zealand's high levels of income inequality) is clearly a systemic issue which got steeply worse until about 2002 when capital received a record 46.4 percent of GDP. Since then, the imbalance has moderated but has a long way to go to return to historical levels. If the imbalance had been used to invest in new production or in increasing the productivity of existing firms, it could be understood; as we know, investment has been inadequate.



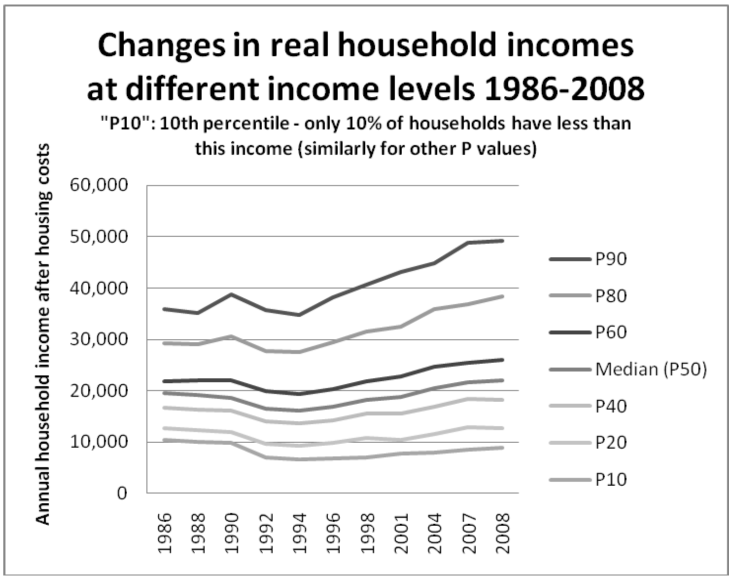
Steeply rising inequality

Steeply increasing inequality has been a feature of most of the period, and with it increased poverty, particularly affecting children. The only real pause has been since 2004, with the introduction of Working for Families package, and although that helped many families its effect has been only to stop inequality growing rather than reverse the trend. Inequality appears to have risen again in 2008.

The Ministry of Social Development publishes a regular report on after-tax household incomes in New Zealand[23]. These are adjusted for household size and composition and used "as an

[23] "Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2008", by Brian Perry, Ministry of Social Development, June 2009.

indicator of a household's access to economic resources and of its (potential) living standards". It looks at these incomes both before and after the single largest essential cost – housing. Inequalities in society mean that many more people and households have below average income than have above average. It is therefore more useful to consider *median* incomes for these purposes. The median household income is one which half of households receive less than and half receive more.

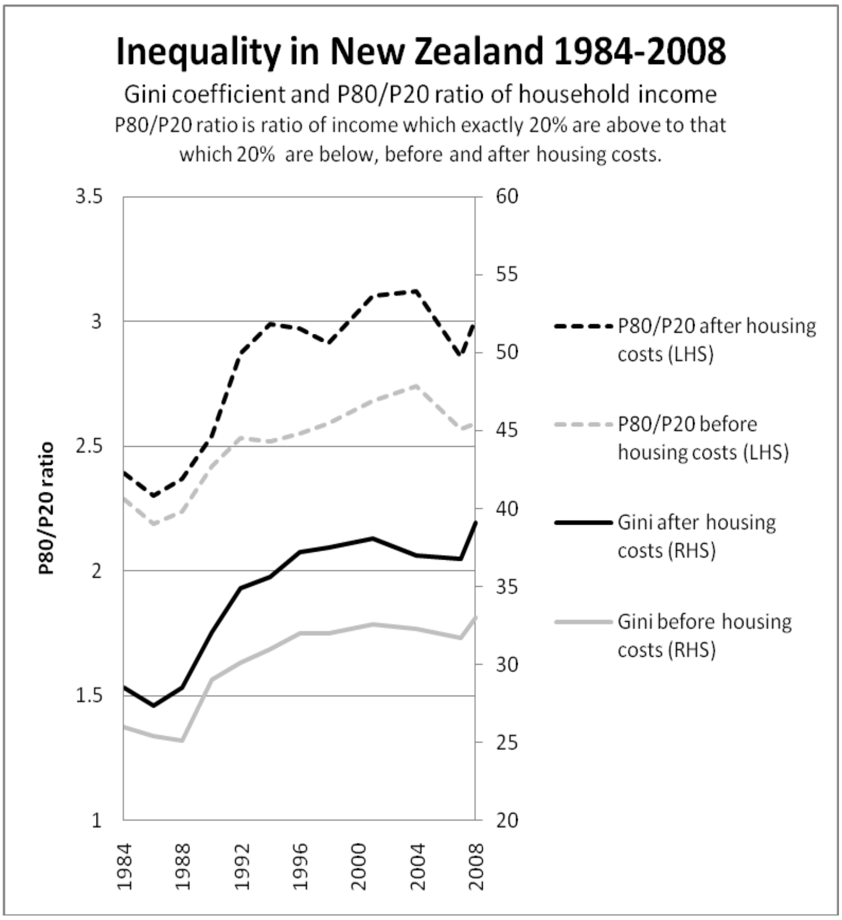


The report finds that median household incomes fell in real terms from the late 1980s to a low point in 1994, and rose steadily from then to 2008 at an average of 2.5 percent per year. By 2001, the median income had just returned to its 1988 level. However, over most of that time the incomes of higher income households rose more quickly than those of lower incomes, increasing inequality. As can be seen in the figure, the spread of incomes has widened over the period.

However, the Working for Families package was implemented from 2004 to 2007 and provided a significant increase in income through the tax system to low to middle income households with children. The report comments that the impact "from 2004 to 2008 is evident – this is the only period in the last 25 years when low to middle household incomes have risen more quickly than incomes above the middle." The income-related rents policy introduced in 2001 also had a significantly beneficial effect on after-housing-cost income for many low-income households but the housing price bubble meant that "from 2007 to 2008 housing costs rose for all income groups, but especially for low-income households".

As the report notes, a useful way to summarise this spread of incomes is to look at how much more the incomes of those who have exactly 80 percent of household incomes below theirs (the "80th percentile" – representing high incomes) with those who have exactly 20 percent below theirs (low incomes). Before housing costs, the high income household was receiving 2.24 times the income of the low income household in 1988, by 1992, the ratio had risen steeply to 2.53, rose further to 2.74 in 2004, but from 2004 to 2007 fell from 2.74 to 2.57, "the first fall since the upward trend began in the late 1980s" due to lower incomes rising more quickly than higher ones. It levelled out to 2.59 between 2007 and 2008. The differences are even greater though after housing costs are taken into account – the ratio reached 3.12 in 2004. These are compared in the accompanying graph, which also compares the Gini coefficients – another measure of inequality which is zero for perfect equality and rises with increasing inequality to a theoretical 100 for one individual hogging all the income. New Zealand's peak scores in the mid to high 30s are high by international standards – 8th most unequal in the OECD in 2007 behind countries including Mexico, Turkey, Portugal, the US and U.K. The rise in inequality New Zealand experienced from the mid 1980s to the mid 2000s – virtually all of which occurred in the first decade – was the highest of 24 countries in the OECD.

Wealth inequality – the ownership of assets – is even more extreme. The top 1 percent of the population over 15 owns 16.4 percent of the wealth[24]. The richest 10 percent own over half – 51.8 percent – of the country's wealth owned by residents. At the other end of the scale, the least wealthy 50 percent of the population own only 5.2 percent of the wealth. Māori, though 10.4 percent of the population own only 4.3 percent of the wealth, and Pacific Peoples are the worst off – they make up 4.9 percent of the population but own only 1.3 percent of the wealth. Their median wealth is just $6,700, less than a tenth the $69,800 median for the whole population. The Māori median is $18,000.



Poverty

High levels of poverty have become an unwelcome feature of our society. The permanent existence of food banks and inadequate housing are symptoms. It also shows up in the increasing appearance of health problems due to poverty and overcrowded living conditions. The Child Poverty Action Group lists meningococcal disease as well as rheumatic fever, pneumonia, chronic lung infection, gastroenteritis, ear disease, dental disease and serious skin infections. Unacceptably high child death rates and lack of educational progress are other effects.

The Ministry of Social Development report documents the rise in poverty, defined as below 50 percent or 60 percent of the median household income. Poverty rose steadily through the 1980s but then jumped – on some measures, doubled – in 1992 due to draconian cuts in benefits, high unemployment, and falling real wages following the deunionisation driven by the Employment Contracts Act. Poverty peaked in 1994, when one measure showed 26 percent of the population in poverty. It levelled out or fell (depending on the measure used) slowly until 2001 when it rose again, peaking at 2004 when the Working for Families package brought about a decline. In 2008 up to 18 percent of the population could be described as living in poverty. Working for Families made a difference for people with paid work but not for low income households whose main source of income is from an income-tested benefit or New Zealand Superannuation.

Children have been particularly affected by poverty. At its peak in 1994, over a third of children – 36 percent – were in poverty by one measure. It followed a similar pattern to the whole

[24] Wealth referred to here is net wealth – that is, after deducting debt. The data quoted in this paragraph comes from the Statistics New Zealand report "Wealth Disparities in New Zealand", April 2007.

population during the 1990s, rising again to 2004, and falling or levelling since then. In 2008 up to one in five children – 22 percent – were living in poverty.

Falling unemployment, income-related state housing rents and the Working for Families package had positive effects in reducing poverty in recent years, but income-tested benefits have barely changed in real terms since the deep cuts made in the early 1990s and remain a strong contributor to poverty, including child poverty. There is considerable unfinished business for these New Zealanders.

Housing – and saving

Housing is a central issue for New Zealand for many reasons. One is the direct effect the cost and quality of housing has on people's disposable income, health and general well-being. New Zealanders are often observed to spend more than most countries on housing, and house ownership is an aspiration of most New Zealanders. Housing costs have risen steeply, particularly in the last decade, becoming unaffordable by many measures, with consequences for the standard of living, particularly of families.

Because of the high investment New Zealanders have in their houses, housing is also a critical factor in discussing the savings and investment available for productive investment. The high dependence on overseas investment is frequently linked to inadequate saving in New Zealand. The gap between what is spent on imports or sent in interest and dividends overseas, and what is earned from abroad must be covered somehow, either by incurring further overseas liabilities or by reducing international liabilities from increased savings of New Zealand residents. There are a number of options to address the chronic current account deficit, all of which we should be pursuing.

We can increase exports, which for sustainability requires diversifying from our increasing dependence on dairy products and for improving living standards requires increased value added content in products. Exporters are struggling; clearly a change in policies is needed for this option to succeed.

We can reduce imports. We have largely given up the right to regulate them by tariffs or quotas so our remaining option is to encourage the production of local substitutes – whose producers face similar difficulties to exporters.

We can reduce our reliance on overseas capital in various ways, one possibility being to ration its use for housing, which would reduce the tendency to demand-driven house price inflation but requires close attention to housing supply and cost.

And finally we can encourage New Zealand residents to save more. This is not simply about individual New Zealanders saving more. There is some evidence (still being debated) that when the amount we save and then invest in housing, and the amount we put aside for retirement is taken into account, that we are not bad savers at all. The problem is not savings but where it is invested – too much in housing. Whether or not that is correct, a big question is whether, given our relatively low incomes internationally, more saving by individuals is possible. The Kiwisaver superannuation scheme is trying to encourage that, though it may to some extent just be moving savings from one form to another.

But we should also remember that a large part of national savings is by the corporate sector and the government. New Zealand companies have been in the habit of paying out large proportions of their profits in dividends rather than saving (or reinvesting) them. We could consider ways to change that behaviour. The government over the last decade has saved substantially as a result of its budget surpluses, one result being the New Zealand Superannuation Fund. Clearly in the next few years, government will be "dissaving" as a result of the budget deficits it will be running to stabilise the economy during the period of the recession. But that aside, a focus on tax cuts ends in government savings reducing or even being dissipated.

Taxation

Taxation is an important matter both to ensure governments have sufficient resources and to redistribute income in the face of high inequality. Since the 1980's, the redistributive function of the tax system has been reduced by the reduction of top personal income tax rates, the introduction of GST, which tends to hit low income people more because they spend all (and sometimes more) than they earn, and the reduction of corporate tax rates. Corporate rates have been reduced but the system of imputation has been even more important, drastically reducing the effective revenue from corporate taxation. Under imputation, individual New Zealand shareholders get a rebate on their own tax matching the tax paid by the company on their dividends. Corporate tax rates are constantly under attack through the threat of companies to leave New Zealand or not invest here. Similarly the mobility of high income earners is used as a reason for high personal tax rates to be reduced, though wage and salary levels are probably much more powerful reasons for people to move overseas. While the threat may be overstated by corporate advocates and the media, it is still real, and results in a tendency to move an increasing proportion of taxation to lower income individuals. Internationally active companies can also avoid tax by ensuring they make their profits in low taxation countries. Capital gains and property taxes may be useful ways to levy tax that is less prone to these threats and avoidance, but care also needs to be taken regarding their effects on income distribution and the cost of housing, as well as other side effects.

Our environment

Last, and not least, we need to recognise the increasing environmental challenges facing New Zealand and the world. Locally we face problems of increasing pollution of our rivers due to intensive farming practices, and of waste disposal around our cities. Conservation land and the rare native species which depend upon it are in many places under threat. Globally, there are similar threats but two of the most fundamental are the increasingly apparent limits to potential oil resources, and climate change.

There is considerable evidence that emissions of greenhouse gases are a cause of harmful climate change. The risks of doing nothing could be catastrophic, potentially destroying entire communities among our Pacific neighbours. Therefore we support a price on emissions so that a clear signal is sent to emitters. However this needs to be strengthened with a major programme to transform the economy.

Unions have focused on four major areas in addition to specific sector concerns:

- risks of "leakage" (the import of goods which are cheaper because they are not subject to emission pricing) and the impact this has on workers and therefore the design of allocation of credits;
- union involvement in education and other programmes to directly reduce emissions and conserve energy;
- developing a skills for sustainability strategy;
- advocating for those on low incomes impacted by increased fuel, electricity and other charges as a result of emissions trading.

New Zealand is a very small emitter on a global scale and a high proportion of our emissions are in agriculture where, particularly for methane emissions, solutions are elusive at this stage. However as a small trading nation reliant on the perceptions of New Zealand as a clean, green, smart economy, we not only have to play our part as good global citizens but also risk a major trade backlash if we do not.

New Zealand has a unique brand. We rely more than Australia on a consumer perception that we are not a laggard on climate change initiatives.

An Economic System which is not Working

The ongoing impact of neoliberalism, whether evidenced by the global financial crisis or the continued impact of the 1984-99 period in New Zealand on our political economy, presents an underlying and fundamental problem: an economic system which creates and perpetuates such disparate outcomes for people is unworkable. We have unsustainable levels of international debt; an economy which fails to pass on to its workers the results of its increasing productivity and which is too frequently in destructive recessions and crises; a society whose steeply increased inequality is patently unfair and leads to poverty at unacceptable levels and other social problems; and an environment in which we take pride but which is under dire threat on a global scale.

In the outline of the challenges above, we have tried to analyse causes as well as the somewhat depressing facts. The Alternative Economic Strategy looks at ways to address these challenges as effectively as we can within a capitalist economy.

NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi