

Submission to the NEW ZEALAND PRODUCTIVITY COMMISSION on the:

## **Building Economic Resilience issues paper**

Submitted by the New Zealand Council of Trade Unions Te Kauae Kaimahi

17.04.2023

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This submission is made on behalf of the 31 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 340,000 union members, the CTU is one of the largest democratic organisations in New Zealand.

The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga), the Māori arm of Te Kauae Kaimahi (CTU), which represents approximately 60,000 Māori workers.

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## **1. Summary of key recommendations**

The CTU recommends that:

- 1.1. It is important New Zealand acts now to build economic resilience to future supply chain disruptions. Proactive analysis, planning, and policy change is needed to protect and improve the living standards and employment outcomes of New Zealanders, and to help build a high-wage, low-emissions economy in which good work is available to all.
- 1.2. The Commission focuses on the social and economic outcomes that building resilience to supply chain disruptions will help us achieve.
- 1.3. The Commission actively engages with the CTU and unions throughout the course of the inquiry. Ensuring that workers voices and interests are reflected in the final report will be critical to its success.
- 1.4. The Commission closely investigates the distributional impacts of different potential supply chain disruptions and responses to disruptions. Māori, Pasifika, and low-income New Zealanders tend to be disproportionately affected by economic shocks. Policy recommendations stemming from this analysis should prioritise protecting and improving the welfare of these groups and communities.
- 1.5. Building economic resilience to supply chain disruptions will require active industrial policy, new institutions for managing inflation and making the cost of living more affordable, and a rebalancing of fiscal priorities. This inquiry is an opportunity to push strategic analysis and action forward in these areas.

## 2. Introduction

- 2.1. The CTU welcomes the opportunity to comment on the Productivity Commission's *Building Economic Resilience* issues paper. Building resilience to persistent supply chain disruptions will be an important part of securing economic stability and prosperity in Aotearoa New Zealand over the coming decades. This will, in turn, help us to build a high-wage, low-emissions economy in which good work is available to all.
- 2.2. This submission supports the inquiry and highlights areas where we would like to see the Commission's thinking pushed further in developing the final report.

## 3. The importance of building economic resilience

- 3.1. In the issues paper, the Commission asks if resilience to persistent supply chain disruptions is a 'nice to have', a 'necessity', or 'somewhere in between'. The CTU's view is that building economic resilience to supply chain disruptions (and more broadly) is very much a necessity. We see this inquiry as an opportunity to advance long-term strategic analysis, planning, and investment to improve New Zealand's economic and social resilience.
- 3.2. As the issues paper notes, the evidence suggests New Zealand will experience more frequent and persistent disruptions to our supply chains over the next decade. Geopolitical rivalry has intensified, and there are signs that the global economic order is changing in response, with governments and firms looking at how they can reduce the exposure of their supply chains – for example, via 're-shoring', 'near-shoring', and 'friend-shoring'. We can also expect that extreme weather events that disrupt the production of imported or exported goods will increase as climate change deepens. A further issue, highlighted by David Skilling, is that emissions pricing and consolidation in the global shipping industry will likely drive sea-freight costs upwards over the next decade.<sup>1</sup>
- 3.3. These dynamics will affect all countries, but New Zealand is especially exposed to them. Our geographical isolation means we are thinly connected to the rest of the world, largely by sea freight; our deep trade linkages with China carry significant geopolitical risk; we lack the productive capacity to be autonomous in many

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<sup>1</sup> [D. Skilling](#), 'Supply Chains to the Last Bus Stop on the Planet: An International Perspective on Strengthening New Zealand's Supply Chain Resilience', paper prepared for the New Zealand Productivity Commission (2022).

important areas of the economy; and our reliance on primary goods exports is exposed to extreme weather events – on this latter issue, the damage to Hawke’s Bay caused by Cyclone Gabrielle is a striking example.

- 3.4. More broadly, New Zealand has neglected to build resilience into our economic system for some decades. Our degraded social and physical infrastructure, the result of decades of underinvestment, is testament to this. We have run up a \$104 billion historical infrastructure gap over the last few decades and, if current public investment patterns continue, are on course to add a further \$106 billion to this deficit over the next 30 years.<sup>2</sup> In conjunction with our high rates of income and wealth inequality – the result of decades of regressive economic policy – this increases our vulnerability to economic shocks, both external and internal. We also know that a number of our existing supply chains are dysfunctional, leading to very high prices for food, energy, rent, building materials, and housing.<sup>3</sup>
- 3.5. If unaddressed, New Zealand’s exposure to supply chain disruptions and our lack of economic resilience will continue to have uneven distributional consequences. Past economic shocks have disproportionately impacted disadvantaged and low-income workers – including Māori, Pasifika, disabled, rainbow, migrant, and young workers. Systemic underinvestment in social and physical infrastructure has likewise disproportionately impacted these communities. We therefore recommend that the Commission adopts an equity approach in developing its advice throughout the inquiry: building economic resilience must start with improving economic outcomes for marginalised communities and ensuring that the negative impacts of supply chain disruptions on these communities are minimised.
- 3.6. The issues paper raises the question of trade-offs between building resilience now and the rewards that may (or may not) reap in the future. Crudely, building economic resilience can be understood as buying insurance against the risk of future supply chain disruptions. While rigorous analysis of the potential costs and benefits of buying such insurance is important, it is also important to acknowledge the fundamental uncertainty that underpins assessments of the economic future. Given this, we encourage the Commission to adopt a precautionary approach in developing its advice: it is vastly preferable to have insurance and not need it, than to need insurance and not have it. Additionally, and to the point made in the

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<sup>2</sup> [The Treasury](#), *He Puna Hao Pātiki: 2022 Investment Statement* (2022), p. 51.

<sup>3</sup> See [NZCTU](#), *Inflation and Incomes Act: Addressing Long-Term Inflation and Increasing Disposable Incomes of Working People* (2022). [NZCTU, 350 Aotearoa, and FIRST Union](#), *Generating Scarcity: How the Gentailers Hike Electricity Prices and Halt Decarbonisation* (2022).

previous paragraph, the costs of not having insurance tend to fall heaviest on lower-income and disadvantaged groups, including Māori, Pasifika, disabled, rainbow, migrant, and young workers.

#### **4. The definition and scoping of economic resilience**

- 4.1. Our view is that the Commission's approach to economic resilience could be strengthened in the following ways.
- 4.2. First, building resilience should not be seen as an end in and of itself. Instead, building resilience is a means to delivering good *outcomes* for all New Zealand workers, communities, industries, and the nation at large. We therefore encourage the Commission to explicitly lay out in the final report what kind of economy and what kind of outcomes we should expect economic resilience to supply chain disruptions to deliver. This is a matter of setting out 'what good looks like' for the New Zealand economy across the macro (national), meso (regional, industry, and community), and micro (household and individual) levels. Another way of approaching this could be to lay out what a resilient New Zealand economy looks like. This could take the form of a best-practice analysis of economic resilience in comparable countries, followed by analysis of how this can be translated into the New Zealand context. In either case, there is a need for a clear understanding of what we want economic resilience to *deliver*. To our knowledge, this is not covered by any existing sectoral and cross-sectoral strategies.
- 4.3. Second, we recommend that the Commission analyses how effective and efficient New Zealand's *existing* supply chains – both international and domestic – currently are in terms of delivering good outcomes for workers, communities, industry, and the country at large. We shouldn't take it as given that our current supply chains are delivering desirable social and economic outcomes. Indeed, we know that there are significant problems with some of our existing supply chains, which deliver consistently high consumer prices – for example, in food and energy – a lack of sustainable investment – for example, in renewable energy or affordable housing – and a shortage of workers in critical areas – for example, in healthcare. In turn, this has distributional impacts – the heaviest burden tends to be borne by lower-income and disadvantaged groups.
- 4.4. Third, and with the above point in mind, we recommend that the Commission's definition of economic resilience (p. 8 of the issues paper) is revised to include an

equity component – i.e., economic resilience is ‘the capacity of industries and associated communities to anticipate, prepare, absorb, recover and learn from supply chain disruptions *in a manner that produces equitable outcomes*’. Analysing outcomes at the aggregate level can mask the uneven distributional impacts that disruptions – and our responses to disruptions – can have across industries, regions, communities, and demographics. We therefore recommend that the Commission closely investigates the distributional impacts of different potential shocks and responses to shocks (including anticipation and prior planning). Policy recommendations stemming from this analysis should focus on protecting and improving the welfare of disadvantaged and marginalised groups. This is a matter of building economic resilience by lifting the fortunes of those who have the least economic resources.<sup>4</sup>

- 4.5. Fourth, we recommend that attention should be given not just to how we can ‘anticipate, prepare, absorb, recover and learn’ from disruptions, but also how we can *actively build risk out of the system*. Reducing our exposure to persistent disruptions is just as important as preparing for the impact of disruptions when they do, inevitably, arise. The final report should provide recommendations on how New Zealand can act now and over the next decade to reduce our exposure to supply chain disruptions. This might include advice on export diversification – both in terms of goods produced and export markets – and on import diversification or, where feasible and beneficial, import substitution.
- 4.6. Fifth, we support the Commission’s general treatment of economic resilience as a quality that involves both proactive and reactive work. We stress the particular importance of proactive analysis, planning, and action here. As Skilling notes, resilience to supply chain disruptions is a first-order issue for New Zealand. It requires ongoing strategic thinking and leadership, and the final report should reflect this in its recommendations. A lack of long-term economic thinking and planning has left us with a set of significant socio-economic problems in New Zealand – with associated distributional consequences; supply chain vulnerabilities should not be added to that list.
- 4.7. Sixth, we support treating disruptions as both challenges and opportunities. Whether they hit supply chains or other parts of economic life, disruptions can provide opportunities to improve economic outcomes and the lives of working people. We recommend that the principle of ‘building back better’ should guide

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<sup>4</sup> We note that the concept of just transitions can be productively drawn upon to help frame and direct this analysis. See [NZCTU](#), ‘Definition of a Just Transition for the Future of Work Tripartite Forum’ (2022).

planning for, and responses to, economic disruptions in the Commission's inquiry. The CTU's view is that policies and institutions aimed at enhancing our economic resilience to supply chain disruptions should prioritise protecting and creating good jobs,<sup>5</sup> building necessary skills, building productive capacity in critical industries, and reducing emissions. Indeed, our view is that building resilience to persistent supply chain disruptions will require not just targeted policies but also broad-based economic reform. We have outlined how we think this can be accomplished in our Alternative Economic Strategy and Inflation and Incomes Act, which we would welcome engaging with the Commission on.<sup>6</sup> In the immediate term, we note that the Auckland floods and the destruction caused by Cyclone Gabrielle provide opportunities to 'build back better'. To this end, we recommend that the Productivity Commission engages closely with the Cyclone Gabrielle Recovery Taskforce on how regional economic resilience can be improved during the rebuild process.

4.8. Seventh, we recommend that the Commission also examines the non-economic dimensions of economic resilience in its inquiry. Decent levels of trust, social connection, and social cohesion, for example, are important components of economic resilience, including the capacity of industries and communities to plan for the future. Attention should be given in the final report to how these qualities, and others, can be fostered through institutions and policies. While the Treasury performs useful analytical work on the dimensions of wellbeing in New Zealand, there is currently no public agency that is responsible for supporting the development of trust, social connection, and social cohesion in this country. We recommend that the Commission explores how the public sector could support and promote the non-economic dimensions of resilience in its final report.

4.9. Eighth, we support the Commission's plans to analyse concentrated imports and exports. However, we caution against taking an overly restrictive approach to defining 'concentrated' and encourage the use of a broader range of parameters to defining concentrated imports and exports in further analysis. It would also be useful to better understand the Commission's reasoning behind the parameters it has used in its initial analysis.<sup>7</sup> The current parameters seem especially restrictive

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<sup>5</sup> Good jobs provide fair wages and economic security, enable worker voice and personal autonomy, and support lifelong learning and career development, among other things. For a fuller discussion, see [NZCTU](#), 'Good Work Policy' (2022).

<sup>6</sup> [NZCTU](#), *Building a Better Future: Creating an Economic Development Strategy Together for Aotearoa New Zealand* (2022); [NZCTU](#), *Inflation and Incomes Act*.

<sup>7</sup> In the issues paper, concentrated imports are defined as 'HS10 goods where more than half of New Zealand imports come from a country that controls more than half of the global market for the given good';



in the case of exports, and do not account for country-specific risk in terms of the dominant markets for New Zealand exports. Export side resilience means ensuring both that our export goods are not unduly concentrated in specific sectors or regions of New Zealand (that may be exposed to extreme weather, for example) and are not unduly reliant on specific markets (that may be exposed to geopolitical risk, for example).

## **5. Industrial democracy as an engagement model**

- 5.1. The CTU supports the Commission's intention to 'emphasise the role of collaborative institutions emerging around the Industry Transformation Plans and similar policy strategies' (p. 26). One of the key attributes of these initiatives is the recognition of workers and unions as critical parts of industry itself, which means ensuring that the voices and interests of workers are active in shaping industry policy. The Just Transition Partnerships, the Industry Transformation Plans, and the Future of Work Tripartite Forum are examples of the value of including the voice and expertise of workers and unions in decision-making and governance processes.
- 5.2. More broadly, it is critical that decisions about building economic resilience are made democratically. Although firms may make decisions to limit their risk exposure, and this can be an important component of building economic resilience, most firms are ultimately motivated by profit, and this doesn't necessarily translate into optimal social outcomes. Democratic and collaborative decision-making can also enhance resilience by building strong social networks across industries and communities. In unexpected shocks or periods of crisis, these social networks are indispensable in enabling a rapid and effective response.

## **6. Policy recommendations stemming from the inquiry**

- 6.1. This inquiry provides an opportunity to make further progress on advancing active industrial policy in New Zealand. Currently, it would be fair to say that New Zealand has a nascent industrial policy. Government has developed a lot of sectoral and cross-sectoral strategies in recent years, as the issues paper notes. However, we

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concentrated exports are defined as 'HS10 goods where over 80% of New Zealand exports are sold to a market that buys more than half of the global production of these goods' (p. 18).

have not seen a great deal of movement in terms of actual investment in strategically important areas of the New Zealand economy – which is the hallmark of active industrial policy. We therefore see this inquiry as an opportunity to advance thinking and, hopefully, action in this area.

- 6.1.1. We support the Commission’s intention to examine how the inquiry can add value across the existing portfolio of sectoral and cross-sectoral strategies, and specifically to the existing Industry Transformation Plans. We do note, however, that there is a path dependency issue in play here: the selection of the eight industries for ITPs encourages future work that builds on/enhances these ITPs; over the long run, this potentially risks neglecting other important industries/sectors. For example, the resilience of the health sector and the wider care sector may require particular attention. These sectors are expected to grow as New Zealand’s population ages; yet they are already under immense strain due to chronic shortages of labour. We also suggest that the inquiry considers the Regional Workforce Plans that have been developed by the Regional Skills Leadership Groups. These documents provide insight into supply chain issues – particularly labour supply chains – from a regional perspective and intersect with the ITPs along a number of lines.
- 6.1.2. The Terms of Reference for the inquiry gives the Commission license to ‘assess whether and how the portfolio of sectoral policies addresses vulnerabilities and dependencies in global and domestic parts of export and import supply chains’. Given the present lack of a larger strategic outlook for industrial policy in New Zealand, we think this would be a particularly valuable analytic piece of work to undertake and we encourage the Commission to do so. At present, there is no clear understanding of what the existing sectoral and cross-sectoral strategies are intended to collectively deliver or how the competing claims on Government resources that each strategy makes are going to be traded off against one another.
- 6.1.3. Ultimately, industry policy requires Government to both directly invest in strategically important sectors and to provide clear signals as to where private investment should be channelled. We note that the Terms of Reference have put a wide range of policy tools on the table, including fiscal policy; we therefore encourage the Commission to examine how active industrial policy (which must go beyond just strategy documents) can and should be used by Government to enhance economic resilience and improve living standards and employment outcomes for New Zealanders. We note that one part of this

work may be to analyse where domestic capacity can be usefully built up to enhance our economic resilience to supply chain disruptions (accepting that New Zealand does not have the domestic production capacity to develop autonomy in many areas of the economy, and that it may not be desirable to do so in many cases).

6.2. Making the cost of living more affordable in New Zealand is an important component of building economic resilience. We see this inquiry as an opportunity to advance thinking on how New Zealand can find more effective, sustainable, and equitable means of managing inflation and lowering the cost of living.

6.2.1. Over the past two years, the relatively high level of inflation in New Zealand has primarily been driven by exogenous shocks caused by the COVID-19 pandemic and the war in Ukraine. Globally, demand rotated away from services and into goods during 2020 and 2021, putting enormous pressure on supply chains; this was compounded by shipping jams and port lockdowns, among other issues. In this context, energy, food, and commodity prices began to rise in price in 2021 and then further in response to the Russian invasion of Ukraine in early 2022. This imported inflation still accounts for around half of total CPI in New Zealand, and the rising costs of imported goods has been a significant factor driving up the costs of domestic goods and services.<sup>8</sup>

6.2.2. Our current inflation-management regime relies on the RBNZ to choke off domestic demand via a higher OCR. But this has highly unequal distributional impacts, forcing unemployment up – which primarily affects workers who are more precariously attached to the labour market, including Māori, Pasifika, disabled, rainbow, migrant, and young workers – and squeezing mortgage holders. People forced out of work by interest-rate hikes are pitched into a social security system that does not provide an adequate level of income and is often punitive.<sup>9</sup> Meanwhile, this approach to managing inflation does nothing to make the cost of living more affordable for low-income New Zealanders; on the contrary, it pushes the cost of living up further in the short term. It also does nothing to address the drivers of cost-push inflation, which are beyond the RBNZ's control. Indeed, restrictive monetary policy undermines future productive capacity, thereby potentially *intensifying* inflationary pressures over the long run; in turn, this bakes in future economic

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<sup>8</sup> See [RBNZ](#), *Monetary Policy Statement* (February 2023).

<sup>9</sup> [WEAG](#), *Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand* (2019).

pain for lower-income households. As we have argued elsewhere, in these circumstances, fiscal and structural policies are far more effective and do not have the same adverse side effects as monetary policy.<sup>10</sup>

- 6.2.3. We therefore encourage the Commission to examine how we can build resilience to price shocks – which may be driven by international or domestic supply chain disruptions – and what policy tools can be used to manage inflation and the cost of living in a more effective, sustainable, and equitable way. Policy tools to consider include the use of industrial policy to build out productive capacity in key areas of the New Zealand economy (see paragraph 6.1.3), thereby reducing our exposure to price shocks in these sectors, and competition policy to eliminate the abuse of market power via, for example, price gouging (see paragraph 6.5). To be clear, we are not suggesting that the Commission comments on the RBNZ's role in macroeconomic policy or its conduct of monetary policy. Instead, we are encouraging the Commission to examine what *government* can do to both help manage price shocks when they occur and to lower the cost of living for low-income groups in New Zealand over the longer term. This is a priority for building economic resilience and delivering equitable outcomes.
- 6.3. The inquiry provides an opportunity to reconsider the balance of objectives that underpin New Zealand's fiscal policy. The status quo places excessive emphasis on maintaining a very low level of Government debt relative to GDP (compared to most other advanced economies), limiting Government expenditure to around 30% of GDP, and returning annual surpluses. Indeed, pursuing debt and spending targets as ends in themselves is encouraged by the current fiscal framework and associated political culture. But this approach has contributed to growing levels of poverty and inequality in New Zealand, deteriorating physical and social infrastructure, and a lack of economic resilience. Essentially, New Zealand's relatively austere fiscal settings borrows neat-looking Government accounts today at the cost of chronic social and economic problems tomorrow. We therefore recommend that the Commission considers how New Zealand's fiscal settings

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<sup>10</sup> See [NZCTU](#), 'Monthly Economic Bulletin' (December 2022), pp. 8-10; [NZCTU](#), *Inflation and Incomes Act*. See also, [I. Weber et al.](#), 'Inflation in Times of Overlapping Emergencies: Systemically Significant Prices from an Input-Output Perspective', *UMA Economics Department Working Paper Series* (2022); [I. Weber and E. Wasner](#), 'Sellers' Inflation, Profits and Conflict: Why Can Large Firms Hike Prices in an Emergency?', *UMA Economics Department Working Paper Series* (2023); [J. Stiglitz and I. Regmi](#), 'The Causes of and Responses to Today's Inflation', *Roosevelt Institute Report* (2022).

could be reformed to better enable the kind of public investment we need to build economic resilience over the short, medium, and long term.

- 6.4. As noted in section 4, the Auckland floods and the destruction caused by Cyclone Gabrielle provide opportunities to 'build back better'. We recommend that the Productivity Commission engages closely with the Cyclone Gabrielle Recovery Taskforce on how regional economic resilience can be improved during the rebuild process. We also recommend that the Commission investigates how resilience could be built into the assessment criteria for Government spending and procurement. Where relevant, when allocating spending and awarding contracts, Government could be giving consideration to how funded initiatives will contribute to economic resilience – consistent with the discussion in section 4, expected equity outcomes should be included in this kind of analysis.
- 6.5. The issues paper notes that similar inquiries internationally have examined how competition policy can improve economic resilience. It is well-established that New Zealand has a lack of competition in key sectors such as supermarkets, electricity, and banking. This can mean both higher prices for consumers – with regressive distributional impacts – and a lack of productive investment in uncompetitive sectors: the electricity sector is a case in point. We therefore recommend that the Commission analyses uncompetitive sectors in the New Zealand economy using a 'resilience lens' and explores policy options for incentivising competition and eliminating the abuse of market power. This should include analysis of the value of emergency policy tools to limit price shocks via, for example, automatic windfall profit taxes, price gouging legislation, and strategic price caps.<sup>11</sup>
- 6.6. The issues paper touches on the need for ongoing analysis of New Zealand's economic resilience to supply chain disruptions. It also notes that some other countries have set up dedicated units to analyse and oversee supply chain issues (p. 16). We encourage the Commission to explore the value of setting up such a unit in New Zealand – a unit tasked with analysing and monitoring economic resilience and threats to it, and developing advice and policies to improve resilience in a manner that produces equitable outcomes. Ideally, such a unit would have some level of independent decision-making power that enables it to allocate resources (whilst still being accountable to Treaty partners, social partners, and wider society). Consistent with the points made in section 5, such a unit would benefit from having

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<sup>11</sup> See [I. Weber et al.](#), 'Inflation in Times of Overlapping Emergencies'.

a tripartite component; this would help to connect it to workers, unions, business, and industry.

## **7. Conclusion**

- 7.1. Building economic resilience to supply chain disruptions is an issue that requires urgent and sustained attention. The global order appears to be entering a period of regime change, and extreme weather events are becoming more common. It is critical that Aotearoa New Zealand, as a small, geographically isolated country, gets ahead of the curve. The present inquiry therefore provides a welcome opportunity to advance analysis, strategic thinking, and action to build economic resilience in this country.
- 7.2. The CTU congratulates the Productivity Commission on launching this issues paper. The CTU would like to actively engage on this inquiry as the Commission develops its analysis and explores policy options over the next 12 months.

**For further information about this submission, please contact:**

Jack Foster  
Policy Analyst  
New Zealand Council of Trade Unions – Te Kauae Kaimahi  
Phone: 027 800 2361  
Email: [jackf@nzctu.org.nz](mailto:jackf@nzctu.org.nz)