

# **A rowing boat on the open sea, or in a haven from financial and environmental crises? New Zealand, the GFC, and a union response**

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Labour and the Global Crisis: sharing the  
burden(!) shaping the future (?)

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# Outline

*Small open economies are like rowing boats on an open sea. One cannot predict when they might capsize; bad steering increases the chances of disaster and a leaky boat makes it inevitable. But their chances of being broadsided by a wave are significant no matter how well they are steered and no matter how seaworthy they are.*

Joseph Stiglitz, 1998

- A brief New Zealand history: the neoliberal era
- The results
- A union response: NZCTU Alternative Economic Strategy

# New Zealand

- 4.4 million people
- 268 000 sq. km.
- Highly urbanised
- 55% exports  
agriculture, forestry



# A brief New Zealand history

- Former British settler colony
- History of social progress from 19th century
- Though compromised by treatment of Māori
- By 1950s one of the highest incomes/capita
- U.K. took up to 90% of exports – agricultural
- U.K. joined EEC, oil shock 1970s
- Neoliberal government took power 1984

# Main features of neo-liberal programme in New Zealand

## Governments:

- 1984 – 1990: Labour Government – neo-liberal
- 1990 – 1999: National Government or coalition – neo-liberal
- 1999 – 2008: Labour-led coalition – third way
- 2008 to present: National-led coalition – pragmatic neo-liberal

# Main features of neo-liberal programme in New Zealand

## 1984 – 1990: Labour Government

- Text-book implementation of policies
- Widespread deregulation including financial sector
- Independent inflation-targeting Reserve Bank
- “NPM”, Corporatisation, and privatising of state assets.
- Lowered top tax rates, introduced GST (value-added tax)
- Removal of subsidies;
- Floated currency, opened the economy internationally
- Mild labour reform, return to form of compulsory unionism

# Main features of neo-liberal programme in New Zealand

## 1990 – 1999: National Government or coalition

- Continued and accelerated previous programme
- Further deregulation
- Employment Contracts Act – abolished concept of unions, individual employment “contracts” encouraged; multi-employer collective agreements almost impossible
- Public Finance Act requiring budget surpluses
- Extended market mechanisms and privatisation of state functions
- Savage cuts to welfare benefit levels and pensions
- Among most extreme commitments to WTO; FTAs, BITs
- Continued to remove regulation of overseas investment

# Main features of neo-liberal programme in New Zealand

## 1999 – 2008: Labour-led coalition – third way

- Reversed some of the policies
- Employment Relations Act – restored unions as only initiators of collective agreements, encourages multi-employer agreements, built on “good faith bargaining”, recognition of inequality in the relationship
- Tripartite “social partnership”
- Rebuilt parts of public service
- Increased minimum wage at rates well above inflation
- Annual leave 3 up to 4 weeks; increased paid parent leave
- Tax credits – “Working for families” – stopped rise in inequality
- But did not restore welfare benefits – still significant poverty
- Fiscal, monetary and international trade policies largely unchanged
- Strategic approach to industry development, limited support
- FTAs with China, Singapore, Chile, Thailand
- Further overseas investment liberalisation



# Main features of neo-liberal programme in New Zealand

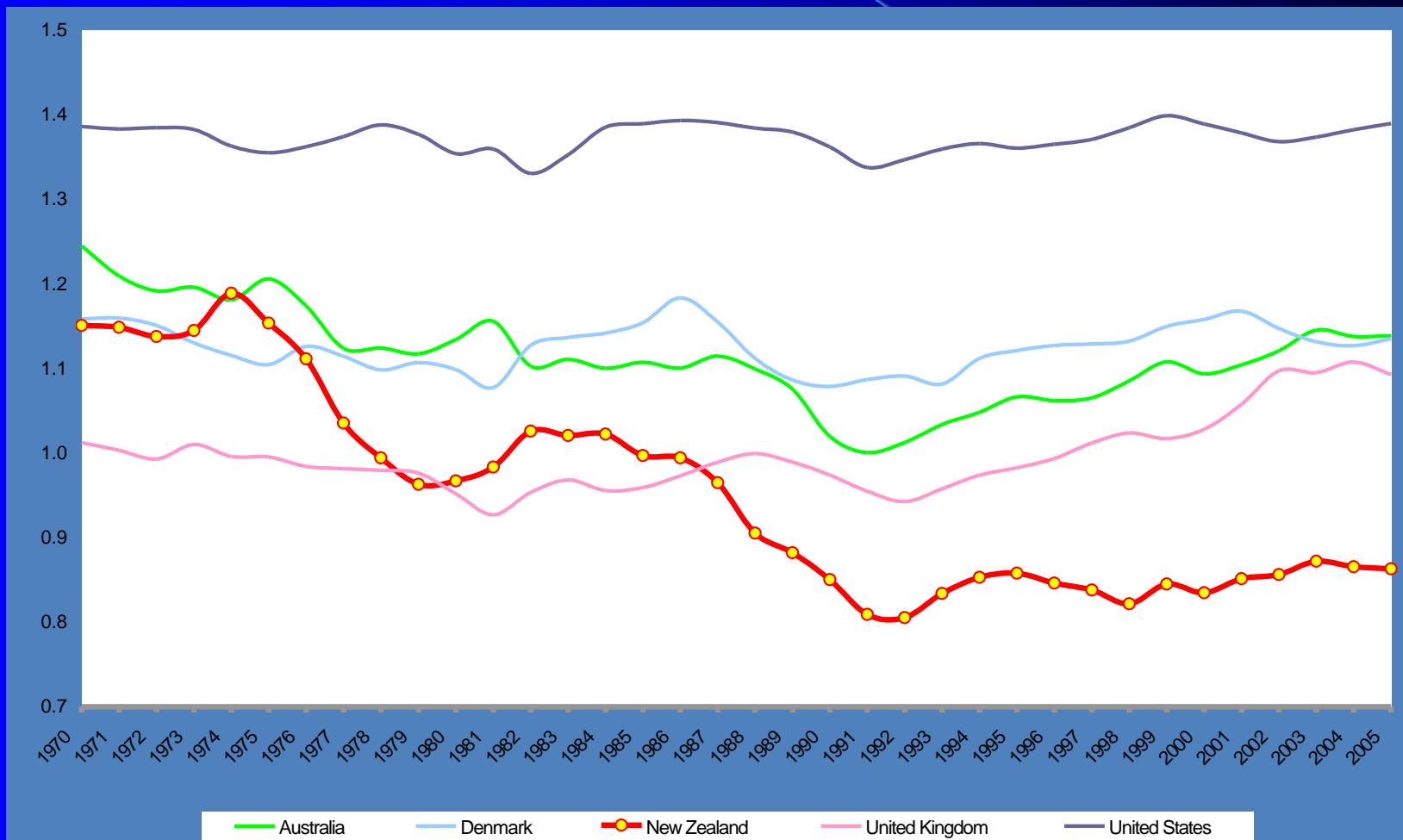
2008 to present: National-led coalition – pragmatic neo-liberal

- Coalition with small extreme neoliberal party (ACT) and Māori Party
- National learned that purist neoliberal policies don't win elections
- Neoliberalism being intensified again in small steps
- Current employment law amendments to reduce union access rights, abolished grievance rights in first 90 days of employment, reduce grievance rights in general
- Continued “social partnership”, but much less real, and is under stress
- Focus on regulation – further deregulation threatened
- Personal and company tax cuts, increase in consumption tax
- More FTAs (ASEAN, Malaysia, Gulf States, negotiating with US, Australia, Chile, Peru, Vietnam and others)

# Neoliberalism – failed in its own terms

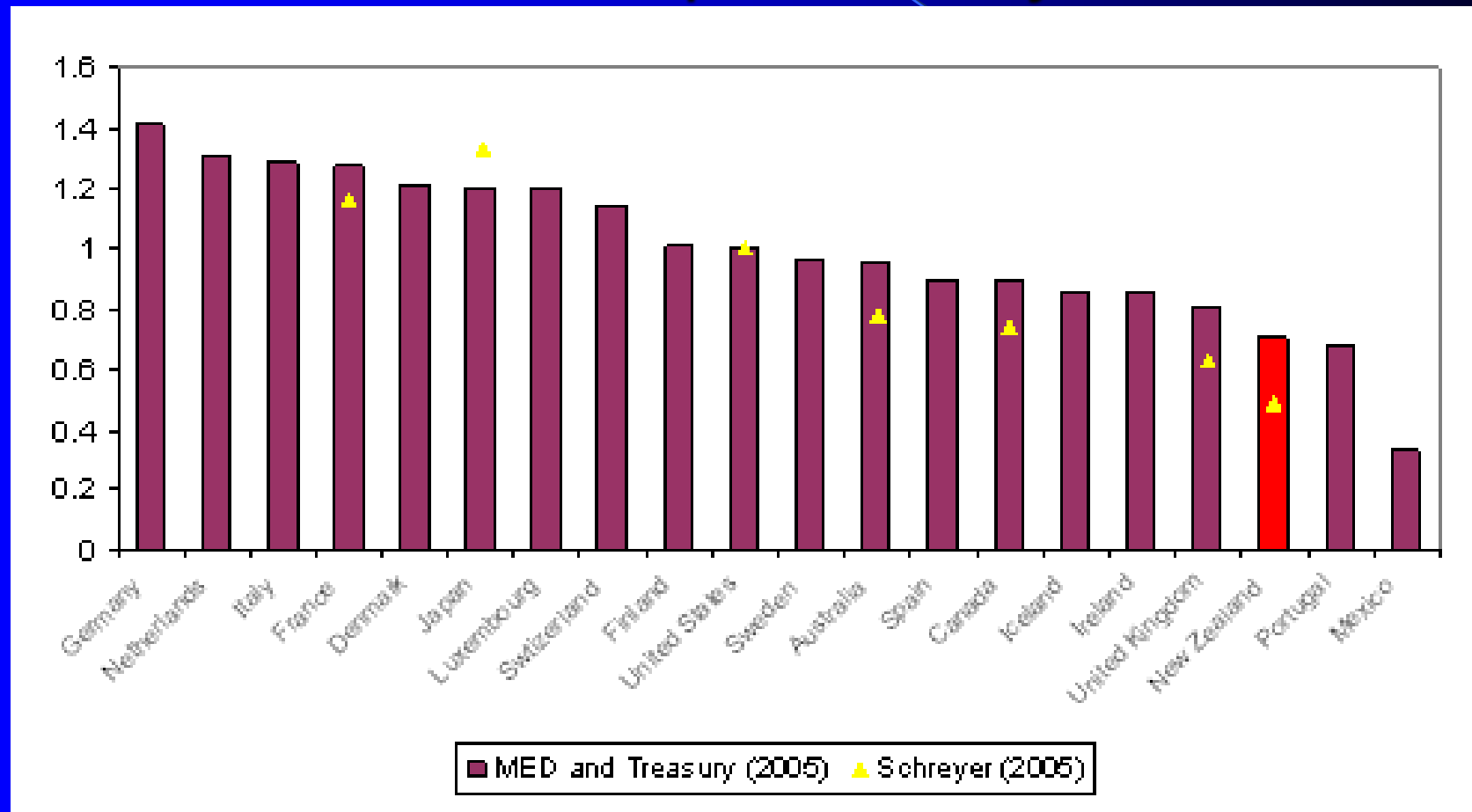
- Growth in output (GDP/head) behind OECD
- Growth in productivity behind OECD; low capital intensity
- Low international competitiveness, low value-add
- Overvalued and volatile exchange rate
- High levels, low quality, of overseas investment
- High current account deficits

# Neoliberalism – failed in its own terms: GDP Growth



Real GDP per capita as proportion OECD average

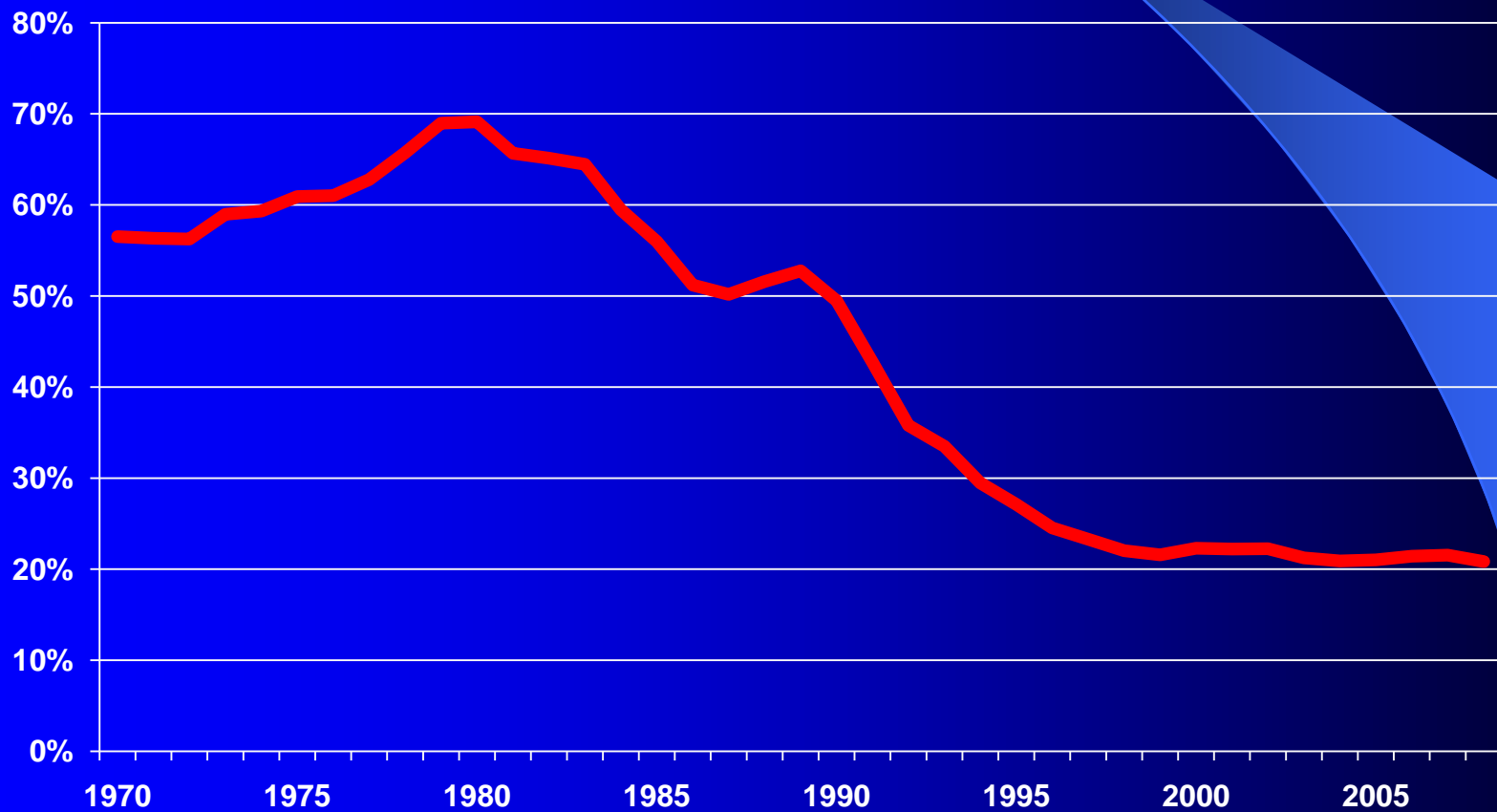
# Neoliberalism – failed in its own terms: Labour productivity



Low capital intensity: OECD countries in 2002: capital per unit of labour

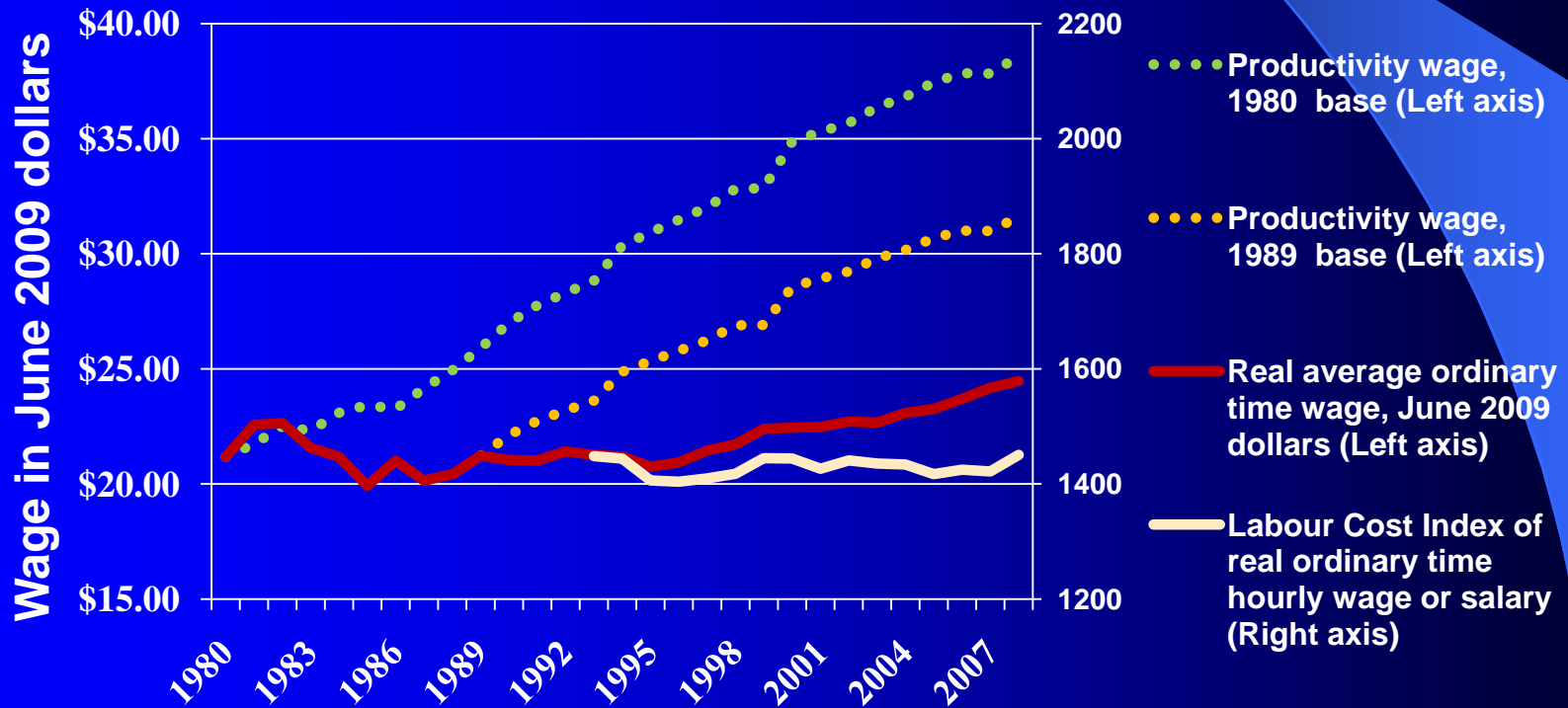
# Neoliberalism – effects on people

## Union density



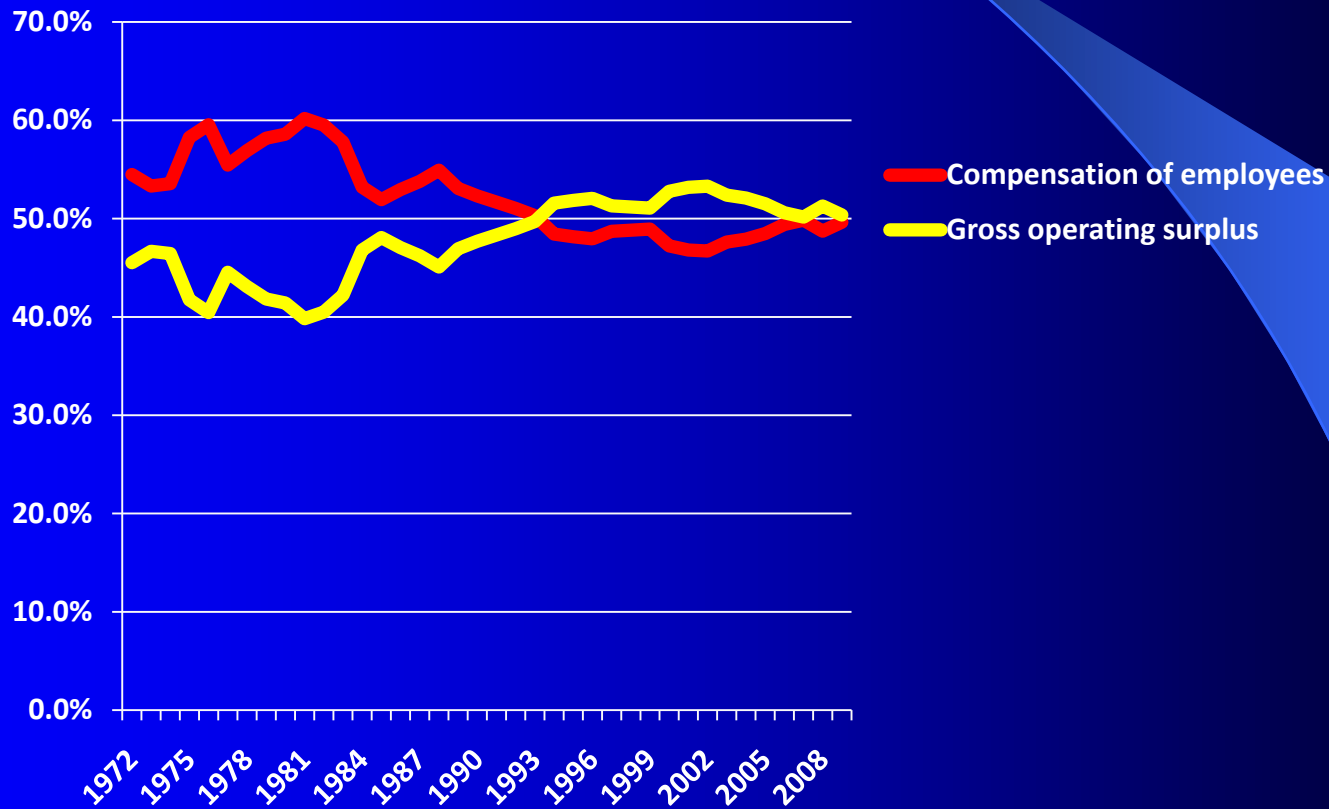
# Neoliberalism – effects on people

## Real wages vs labour productivity gains 1980-2008



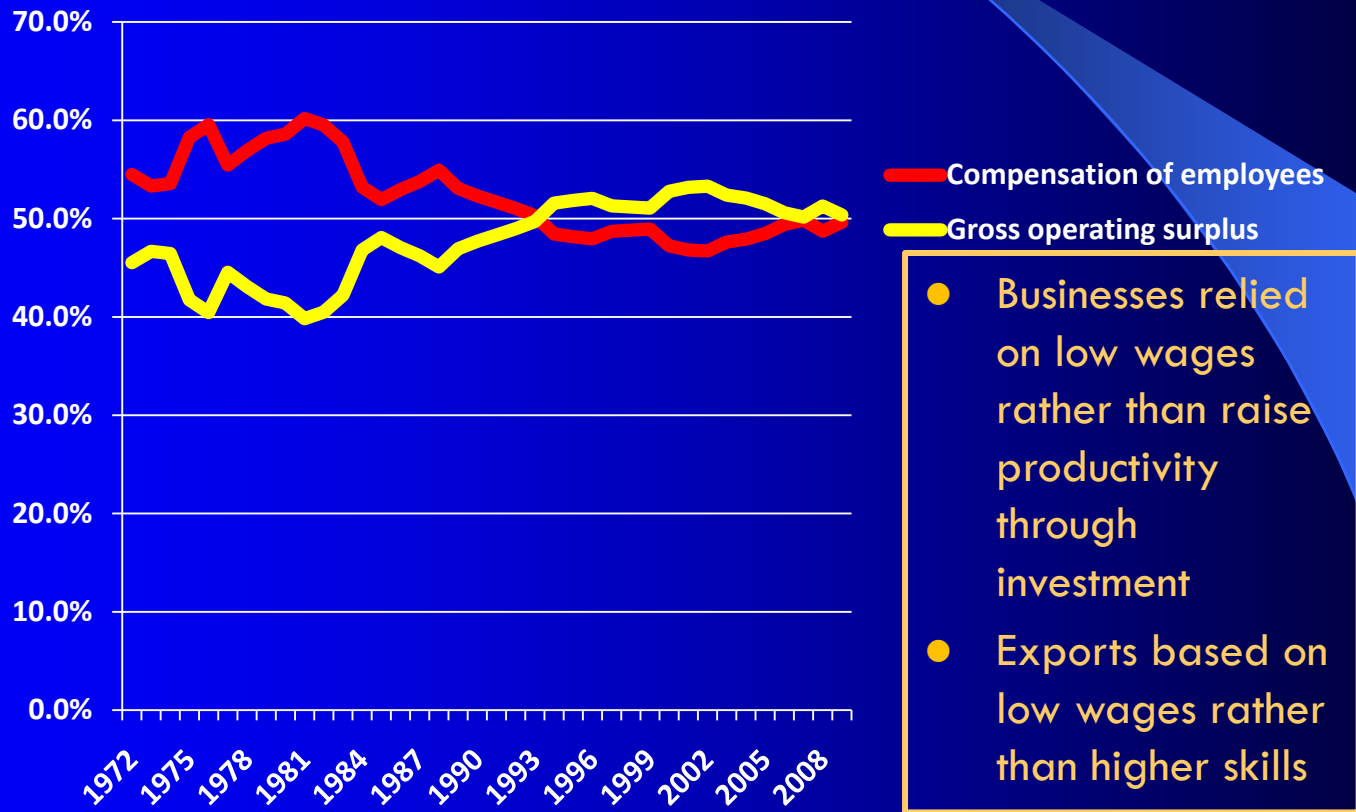
# Neoliberalism – effects on people

## GDP: how it is shared



# Neoliberalism – effects on people

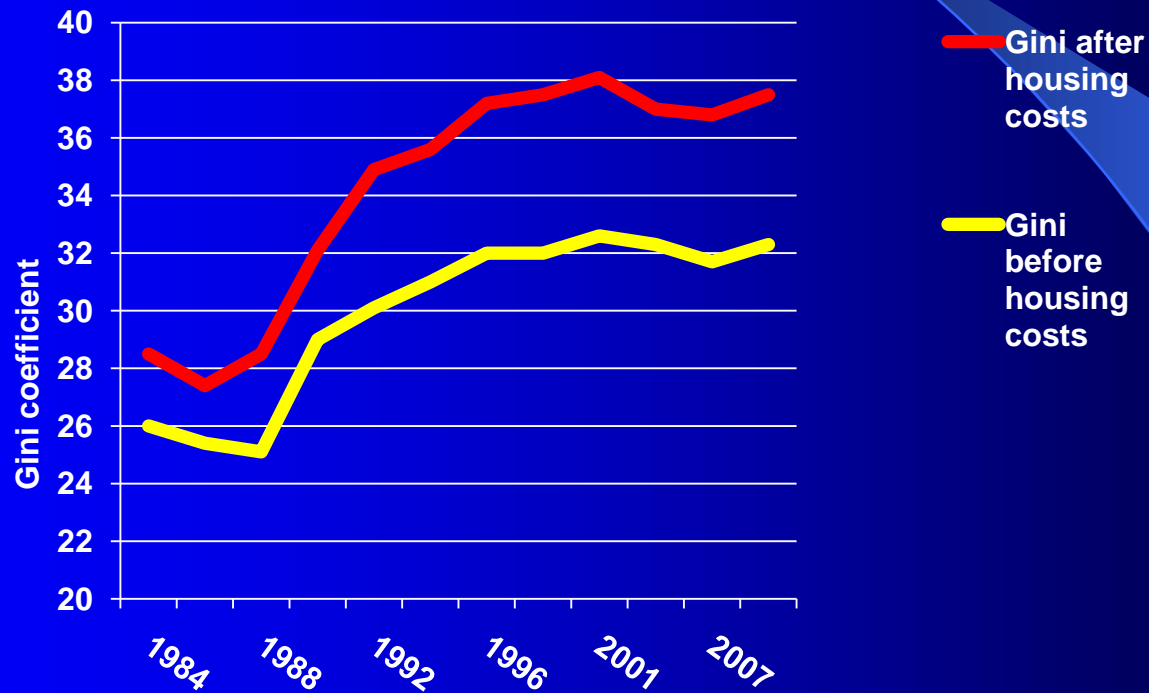
## GDP: how it is shared





# Neoliberalism – effects on people

## Inequality in New Zealand, 1984-2009

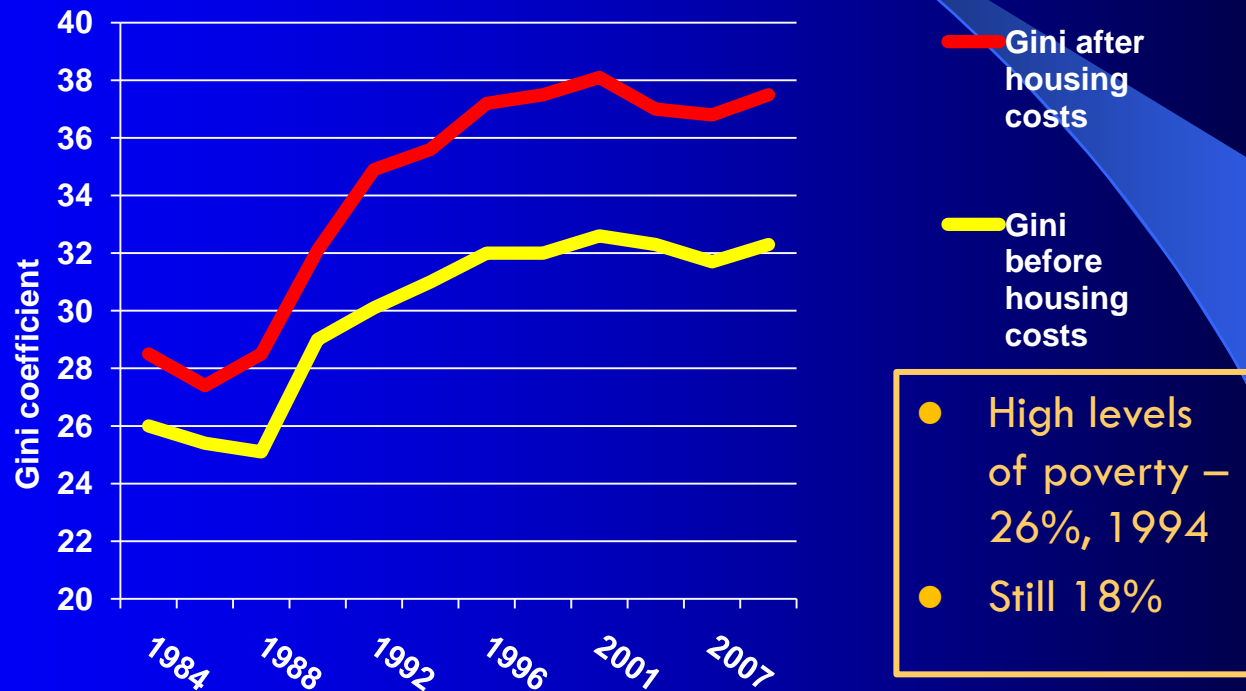


# Unemployment rate



# Neoliberalism – effects on people

## Inequality in New Zealand, 1984-2009



# Neoliberalism – international liabilities

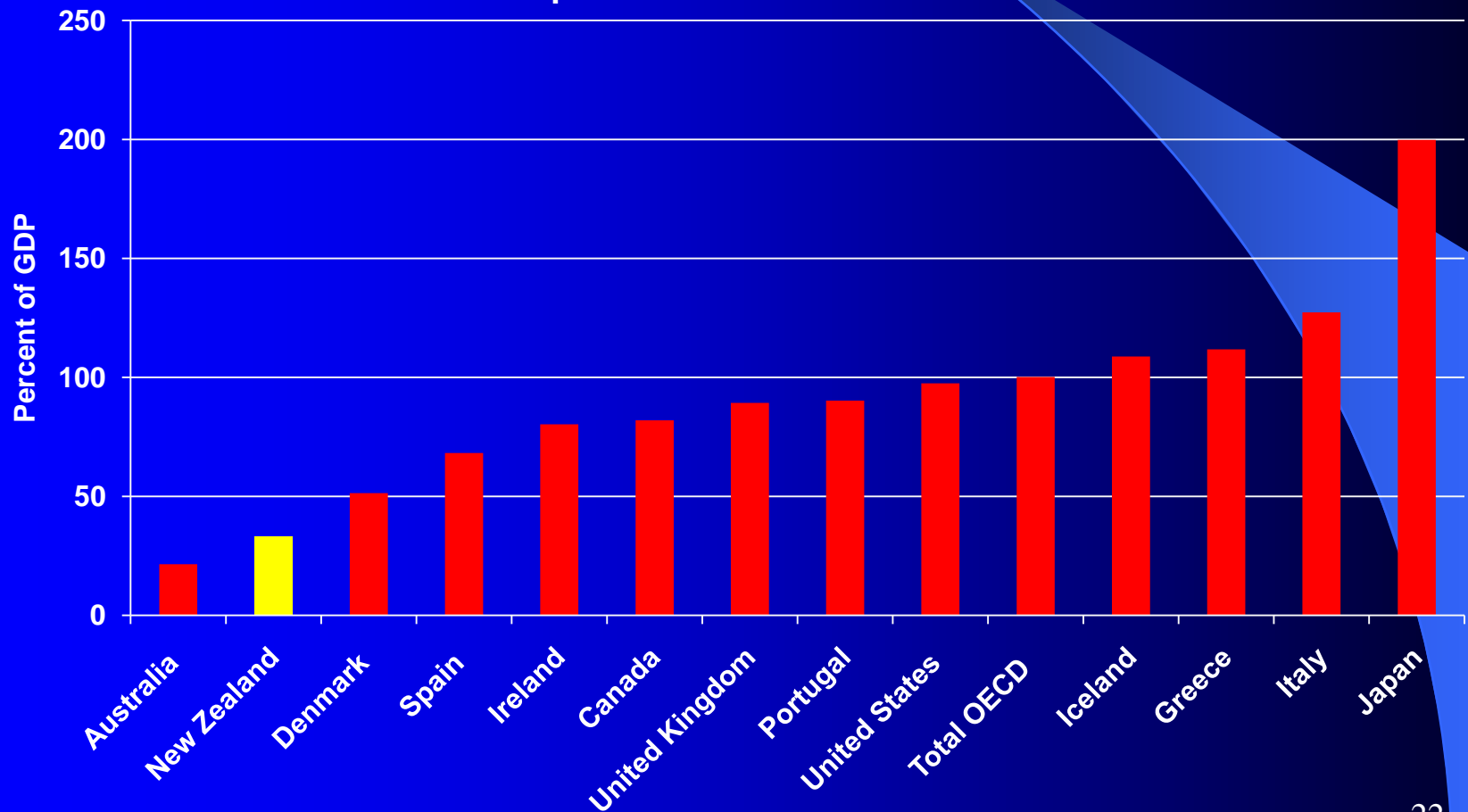
- Attracted overseas investment
- Foreign Direct Investment 42% of GDP 2008 (25% other developed countries)
- Low quality:
  - Few spillovers (transfer of technology and skills, better access to credit and markets);
  - Largely privatisation in 1990s (42% 1986-96)
  - Largely leveraged buyouts in 2000s: e.g. purchaser of Mediaworks on media knowledge: “Ironbridge did not know much about waste either before buying EnviroWaste”
  - Little greenfield investment

# Neoliberalism – international liabilities

- High levels of debt –
  - Gross, 185% of GDP; net 89%
  - Mostly private debt
- Income on overseas investment has driven chronic current account deficit - up to 9% of GDP in the last decade

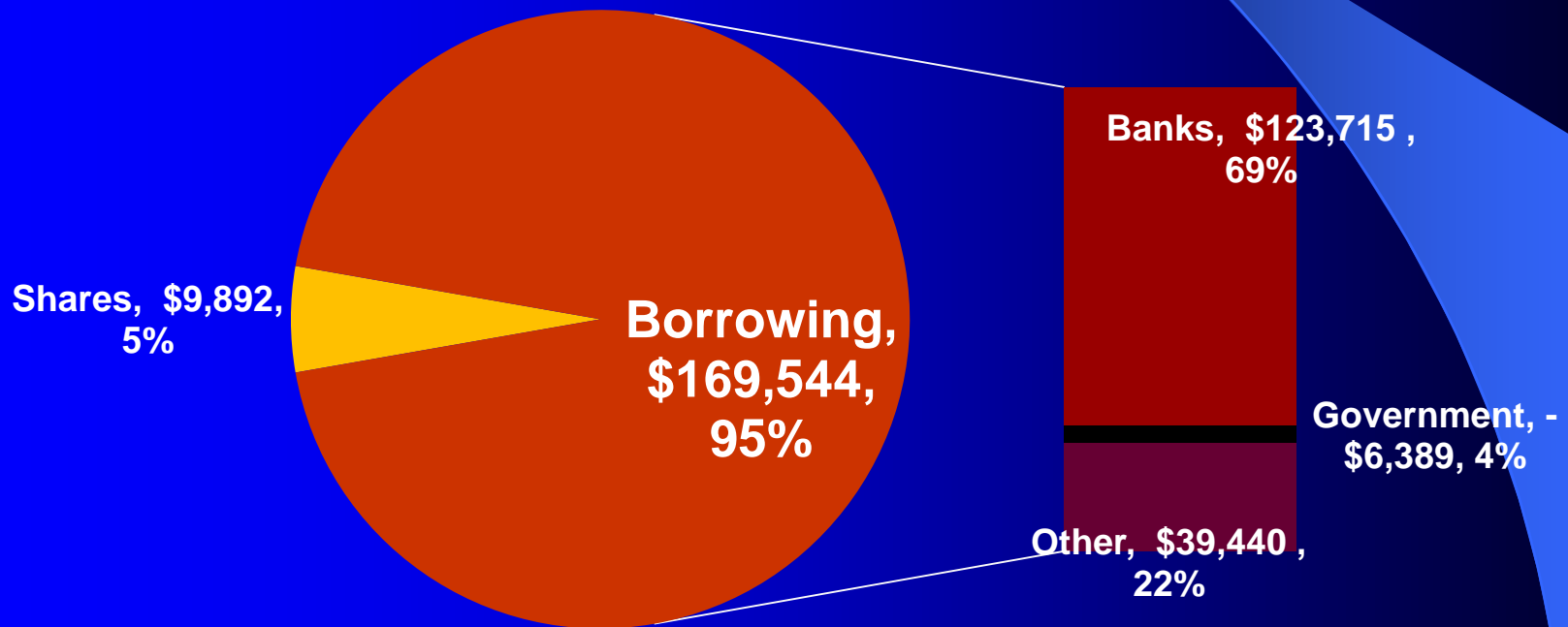
# Neoliberalism – international liabilities

Forecast gross government debt in OECD, 2010  
as percent of GDP



# New Zealand's international debt largely bank debt

## New Zealand's international liabilities, March 2010 (\$m) - Net



# Neoliberalism – international liabilities

- Banking system dominated by 4 Australian owned banks (92% of all bank assets)
- Borrowed heavily over last decade on short term international money markets to finance mortgages in New Zealand
- Results:
  - Monetary authority had limited control of money supply
  - Raised interest rates – official cash rate peaked at 8.25%
  - Discouraged productive investment, encouraged speculative investment, particularly in property
  - Property price bubble
  - Also raised the value of the New Zealand dollar due to carry trade, making exporting difficult



# Neoliberalism – international liabilities

International currency transactions: In 2007,

- New Zealand dollar 11<sup>th</sup> most traded currency in the world – only about a third of that traded in NZ
- Around US\$36 billion of New Zealand dollars traded *per day* (US\$12 billion of that in NZ)
- Goods and services exports/imports US\$38 billion that *year*, so international currency trade 240 times “real” trade. Around 200 times current payments.
- International currency trade US\$3.99 trillion per day – 60 times “real” trade.

Data from WTO, Bank of International Settlements, and Statistics New Zealand

# The GFC and New Zealand

Affected New Zealand through two main channels:

1. Trade – fell steeply with international trade
2. Banks: high indebtedness to short term money markets threatened their liquidity
  - Reserve Bank had to arrange funds
  - Then guarantees of entire banking and non-bank financial system because of open financial markets

# The GFC and New Zealand

- Banking system in Australia and New Zealand didn't crash, unlike elsewhere
- Sounder banking system – less competition? Less savings? Banks would have if they could have? (Former Governor of the Reserve Bank of Australia, Ian Macfarlane) *Dumb luck?*
- Non-bank deposit taking sector in NZ started crashing before GFC - NZ\$8 billion losses to investors to date: biggest crash in last month

# The GFC and New Zealand

- Response: tax cuts, brought forward infrastructure development , small scale active labour market programmes, funding cuts to public services
- No direct cuts in benefits, pensions etc, but tightening of criteria, review of social welfare system
- Unemployment peaked at 7.1% in December 2009, still at 6.8% (was as low as 3.3% in 2007)
- Recovery slow, if not stalled
- May be saved by earthquake!

# CTU Alternative Economic Strategy

- Had been requested by affiliated unions
- Particularly good timing due to 25 years of neoliberalism and the GFC
- Drafted, then six months of consultation, including with experts and interested allied groups
- What do we do about this “rowing boat on an open sea?”

# Principles to stand by

- **Fairness**
  - Greater equality, equity and valuing diversity
- **Participation**
  - Te Tiriti, and greater voice in workplaces and society
- **Security**
  - Security of employment and income, role of the state
- **Improving living standards**
  - Wages, social wage, leisure, our environment
- **Sustainability**
  - Economic, social, cultural, environmental
- **Sovereignty**
  - Apply principles to international relationships, retain power to determine rules and priorities for own welfare

# A framework for change

- **Sustainable economic development**
  - A strong economy which takes account of its side effects on the environment, society and cultures
- **Decent work and a good life**
  - Good and fair wages, rewarding jobs, effective unions, secure employment, social protections , low inequality, social equity
- **Voice:** real participation in workplace, economic and community decision-making

# Short term

- Coming out of recession – but long hard climb
- Need to look after people hit by recession if possible in ways that lead in our desired future direction
- includes small-scale active labour market policies, strengthened public services, infrastructure development, increased access to tertiary education, support for businesses under certain criteria, publicly owned (state) house building, extended home insulation and clean heating programmes, and encouragement of local manufacturing and services through government procurement and other measures.
- calls for immediate changes to the financial system to reduce New Zealand's vulnerability to international financial crises and demands of overseas investors



# Sustainable economic development

- Recognise need to increase tradable sector, more value-added
- Strategic industry development
  - both sectoral and cross-sectoral (e.g. environment, productivity)
- Support for firms subject to criteria that support Strategy
- Consider firm size and competition rules
- Infrastructure development
- Innovation, R&D, education, skills, government procurement, cooperatives ...

# Sustainable economic development

- Affirm role of state as regulator, stabiliser, redistributor, and owner of parts of the economy
- More progressive, redistributive tax system; phase out consumption taxes; replace with Financial Activities Tax, Tobin tax and/or commercial resource use taxes (subject to protecting low income earners), address tax avoidance; capital gains tax
- A review to improve the welfare system
- Climate change – tax carbon emissions, but with “just transition”
- Alternative measures of progress to use alongside GDP

# Sustainable economic development

Financial system: policies include:

- closer oversight over all financial institutions in proportion to their use of leverage and systemic significance, recognising the implicit state support
- legislation for separation of commercial and investment banking, control of remuneration, a Financial Activities Tax, approval required for high risk financial services, from New Zealand or abroad, reduce reliance on overseas funding
- Reduce vulnerability to the four Australian banks

# Sustainable economic development

Financial system: policies include:

- Social responsibility
- Development finance agency including unions in its governance,
- Greater local investment by New Zealand sovereign and superannuation funds
- Expansion of savings through changes to voluntary superannuation schemes
- Broadening the aims of monetary policy, and broader mechanisms in addition to interest rates to implement it
- Giving Reserve Bank powers to manage capital flows and the exchange rate, enabling the exchange rate to be pegged (but not fully fixed)

# Sustainable economic development

- Internationally, work with others to constrain capital movements and reverse constraints in trade and investment agreements that constrain us
- a new generation of trade and investment agreements with rules founded on the need to regulate and to recognise national economic development strategies

# Decent work and a good life

- Parallel strategy of Union change to rebuild union movement
  - extending union coverage and collective bargaining beyond those in large and more readily unionised workplaces
  - rights-based framework for coverage by collective agreements
  - participation in unions and workers' voice in their workplace and industry, new forms of worker organisations, and a more structured approach to social partnership
- Flexicurity as in northern Europe:
  - high level of income replacement if out of work, active labour market policies, and financial and practical support for acquiring new skills
- Full employment a central objective of government policy

# Decent work and a good life

- Crucial role of housing
  - not only an essential for living, but also central in investment behaviour in New Zealand: complex
  - based on the development of a National Housing Strategy and quality lower cost housing
- Retirement
  - important both for individuals and for the economy in terms of the savings generated in preparing for it
- Equity and reduction in inequality (also integrated into the rest of the policy)
  - includes gender equity in pay and employment
  - extending paid parental leave
  - making more flexible working arrangements available
  - increasing the minimum wage to 66% of the average wage

# Voice: real participation in workplace, economic and community decision-making

- Fuller view of democracy than a vote once every few years
- Fuller consultation by central and local government with social partners (unions and business) and other affected groups
- Workplace as a place for active citizenship
- More diversity and depth in the media through trust-owned not-for-profit “public service” newspapers and other media, and funding for investigative journalism
- Structures to increase worker participation
  - participative representative structures at the workplace level;
  - industry sector councils to share good practice around productivity, skill development , industry development initiatives, and networking of firms;
  - a National Tripartite Social/Economic Council.



# Conclusion

- AES based on a variety of social democratic policy strands
  - borrows much from successful northern European countries
  - also integrates environmental sustainability and the challenges of the GFC
- Specifically designed around New Zealand's situation: dual failures
  - failure of neoliberalism both domestically and internationally
  - failure of the dominant political parties and economic orthodoxies (strengthened by powerful vested interest) to consider substantive alternatives
- Many parts require long term effort and resources

*The rowing boat that is New Zealand would then be more secure and provide a better life for those who rely on her.*