



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

## **NZCTU Submission to 2025 Taskforce**

### **1. Introduction**

- 1.1 The CTU welcomed the opportunity to meet with Don Brash on 1<sup>st</sup> September, 2009 to discuss the 2025 Taskforce. At that meeting Don suggested we send in a short submission on key points.
- 1.2 The 2025 Taskforce is charged with recommending ways to improve productivity in order to close the income gap with Australia by 2025. Rodney Hide has commented that the income gap is one of the reasons we lose so many talented, hard-working New Zealanders every year. Your first report is intended to identify the size and any structural reasons for the gap, and consequently the policy settings and changes that will deliver the productivity growth necessary for a stronger, more prosperous economy.
- 1.3 We look forward to further opportunities to engage with the 2025 Taskforce. Below we set out our initial comments. As requested it is brief. We are happy to provide a more substantive document.

### **2. Key Points**

- 2.1 The CTU believes that lifting wages must be a major focus for the Taskforce. Higher pay levels in Australia are not simply due to higher levels of productivity but a fairer distributional system that has maintained a system of industry wages at a time that New Zealand substantially deregulated wage bargaining.
- 2.2 We would be very concerned if the Taskforce suggested another round of deregulation and 'microeconomic reform'. Given that New Zealand is ranked second behind Singapore in "ease of doing business", whereas Australia is ninth, we do not consider the focus should be on such matters. In addition, Appendix 1 shows our performance on real GDP per capita from the 1970s until recently, compared with Australia, as a ratio to the OECD average. This graph illustrates that we were briefly on a par in 1974, fell sharply in the late 1970s, recovered somewhat but then fell substantially in the 1984-1992 period at the height of the neo-liberal reform implementation. There was a small bounce up in 1993-94 but since then we have essentially flat-lined. This shows that not only did those reforms mean we missed a cycle of economic growth, but we have not had a real dividend from that reform period. It would be foolish to head down that path again.
- 2.3 The 'workplace' should be fundamental to the deliberations of the Taskforce. Multifactor productivity reflects not only innovation and technology, but also

how well work is organised, the quality of leadership and management, workplace culture, and how organisations with similar inputs of labour and capital can achieve remarkably different results.

- 2.4 Education and investment in lifelong learning are of vital significance. Knowledge is an infinite resource but needs investment. Value added exports will rely hugely on the depth and quality of our skills base.
- 2.5 Capital investment is crucial. The IMF argues that, compared with New Zealand, 75% of the reason for higher labour productivity in Australia is a higher level of capital intensity in the Australian economy. Capital per worker needs to rise.
- 2.6 The Taskforce should make every attempt to agree on the most accurate and comprehensive analysis of the reasons for the income gap between Australia and NZ. For instance, Don Brash in his 30 July address to AUT noted that the mining industry in Australia contributes about 5% of GDP. This puts into perspective a widely held view that the mining industry is the main reason for different income levels.
- 2.7 There are some tax changes that may promote improved economic performance but we do not regard personal income taxes as a major determinant of the current income gap.
- 2.8 The CTU supports (with some caveats) the establishment of a Productivity Commission.
- 2.9 Social and equity issues also have economic consequences.

### **3. Background Comment**

- 3.1 The CTU supports the development of a high wage, high skill and high value economy. The CTU has been actively involved in the issue of lifting productivity in New Zealand. We have published papers on “Unions, Innovation and Sustainable Development” and also “Your Job, Your Industry, Your Future” to illustrate the vital role of workers in innovation and industry development. We have also published a booklet called Te Huarahi mo nga Kaimahi (Workplace of the Future) that sets out five main characteristics for such workplaces.
- 3.2 In 2003 and 2004, we met regularly with Business NZ and the Treasury to discuss productivity issues both at the workplace level and in terms of infrastructural requirements for a lift in both the level and rate of growth of multifactor productivity (MFP) and labour productivity. And we participated in the Workplace Productivity Working Group which released a report in late 2004. Since that time we have been more focused at an operational level. The “Workplace Productivity Education Project” run by the CTU has included sessions for over 2700 workers. We are supporting initiatives such as the Centre for High Performance Work run by the EPMU and the NZ Dairy Workers’ Union, and the DoL’s Partnership Resource Centre.
- 3.3 The CTU is also actively engaged in state sector productivity initiatives, including in the health sector. The PSA, for example is involved in numerous productivity projects and has put forward a major proposal to increase the breadth and depth of this approach.

3.4 We did a joint submission with Business NZ on productivity to the Enquiry into Future Monetary Policy. Our concluding recommendations were that the Committee:

- (a) recognises the value of social partnership involvement in workplace productivity
- (b) supports funding for a stronger and more permanent institutional base for ongoing and more integrated initiatives on productivity
- (c) supports a higher level of support for trusted networks to deliver productivity programmes
- (d) supports further measures (including in relation to depreciation) that can enhance capital investment.

#### **4. Labour Market**

4.1 To state the obvious – closing the income gap with Australia means lifting real wages in New Zealand. That requires investment in skills and education. It requires more capital per worker. Part of the reason for lower productivity than Australia has been employment growth and high labour utilisation; we do not want higher unemployment to be a by-product of lifts in productivity. We work among the highest hours in the world. Only recently have we achieved 4 weeks annual leave, some decades after Australia, and our minimum wage is low compared with theirs.

4.2 We need not only higher levels of capital and investment in skills, but also fairer distribution. We argue that there is a relationship between these factors as evidence shows that following the Employment Contracts Act there was a relative fall in capital intensity.

4.3 Melleny Black, Melody Guy and Nathan McLellan in “Productivity in New Zealand 1988 to 2002”, NZ Treasury 03/06 June 2003 note that ‘between 1992 and 1996 the relative price of labour to capital fell by 22%. This occurred shortly after the introduction of the Employment Contracts Act (1991) and welfare reform. ... Firms appear to have employed labour rather than capital during this period resulting in a decline in the capital-labour ratio between 1992 and 1996 (i.e. New Zealand experienced capital “shallowing”)’.

4.4 The CTU does not like to see workers taking on more and more debt. We know some relied on equity release during the housing boom as wages responded weakly to higher economic growth and company profits. Many now rely on ‘Working for Families’ to boost wage income. It is far better to rely on real wage increases through continuous improvements in productivity and fair distribution but we cannot support any diminution of current state support.

4.5 Emigration to Australia is a vertical slice of our labour market. It is important to recognise that we have had high levels of emigration in the past. In 1980, net migration to Australia was 29,618, in 1989 it was 33,075, and in 2008 it was 29,892. We are now faced with what looks like a long run trend rather than occasional spikes. Given the ease of relocation, we must focus on improving labour market outcomes in New Zealand – for those already here and new migrants.

## **5. Tax**

- 5.1 New Zealanders would prefer the average wage paid in Australia to what is earned here. But their tax wedge for a single earner is 26.9% compared with NZ at 21.2%, third lowest in the OECD. There are some tax issues that might be considered, such as a capital gains tax, but we would caution against any proposal that tries to reduce income tax rates in New Zealand as a means of closing the income gap with Australia.

## **6. Savings and Investment**

- 6.1 This is crucial. KiwiSaver is helping. But we clearly need to increase capital per worker if we are to lift productivity and incomes. An extension to capital gains tax and a land tax could promote a change of emphasis to productive, rather than housing and land, investment. A phase in of 6% compulsory employer KiwiSaver contributions to complement 2% from workers and continuing member tax credits can build on the emergence of stronger domestic savings.

- 6.2 We note the comments by Don Brash in his recent AUT paper that state: “we have got into the habit of spending more than we earn”. This is largely a private sector phenomenon. It needs to be remembered that well over 80% of our current account deficit is due to the investment income deficit. That decomposes largely into bank borrowing offshore and repatriation of profits to overseas owners of NZ-based firms. Lifting savings and changing the tax mix will help to improve our economic performance, but we also need to develop more direct NZ equity stakes in firms that wish to invest here.

- 6.3 High cost of capital is partly due to New Zealand’s high level of (largely private) international debt and the volatility of the exchange rate. We need to look for ways to stabilise the exchange rate, which also penalises exporters. It is unlikely that will be possible without some form of management of international capital movements.

- 6.4 Current patterns of FDI have not been successful in raising our performance. For instance, “Investment Productivity and the Cost of Capital” (Treasury Productivity Paper 08/03, 2008, p.19) quotes Enderwick as arguing that “NZ receives substantial FDI inflows but has yet to benefit from spillovers”. He also wonders why New Zealand has not experienced the growth rates of comparable countries with high FDI levels<sup>1</sup>. Given the high cost of overseas capital to the economy, greater selectivity is justified.

## **7. Productivity Commission**

- 7.1 With some caveats the CTU supports a Productivity Commission. The objective of a Productivity Commission should be to facilitate policy development, practical activities and research, which will boost productivity on a sustained basis.

- 7.2 The CTU would support a major new institution which implements a sustained social partnership approach to improving workplace productivity.

---

<sup>1</sup> <http://www.treasury.govt.nz/publications/media-speeches/guestlectures/enderwick-may03>

7.3 The CTU and Business NZ and/or business organisations should be represented formally on the governance body of the Productivity Commission. Our preference is for a specifically constituted tripartite governance arrangement. If that is not the case, we would support a governance group of no more than 20 members carefully selected by their constituents to represent their communities of interest (science, academia, Māori, core public sector, skill development sector, unions and business (by major sector), environment, urban and rural communities, local government etc).

7.4 The Productivity Commission would:

- be established initially as the Prime Minister's Productivity Commission. We would prefer that the Commission (including its Secretariat) is independent. This will assist with public credibility on the independence of the Productivity Commission. It will involve higher initial costs. An alternative is for it to be supported by DPMC.
- require officials to work cross-departmentally and work for the Productivity Commission by secondment
- include an analytical and research role on productivity issues and trends. It would link with academics through commissioned work and perhaps more formally
- not primarily focus on tax, deregulation and compliance costs but build on modernisation process through infrastructure investment, sustainability, new (including green) technologies and how to maximise multifactor productivity in workplaces
- support a High Performance Work Initiative or similar which supports practical productivity projects and provides an overview of the range of tools/models available
- share information on and adapt a range of productivity tools (Sigma 6, lean, 5S, 7 drivers, Baldrige etc)
- run inclusive events/workshops on productivity and have educational tools and other information on its website
- organise events and activities as appropriate with the Australian Productivity Commission.
- produce an annual report on productivity
- become the major portal supported by Government on productivity
- be reviewed after 3 years.

## **8. Social and equity issues**

8.1 There are unnecessary costs to the economy as a result of social and equity issues, on top of the pain they cause to those directly affected.

8.2 For example there is increasing evidence that high inequality has identifiable consequences in inferior physical and mental health, educational achievement, crime levels, and social mobility, which in turn create real economic costs ("The Spirit Level: Why More Equal Societies Almost Always Do Better", by Richard Wilkinson and Kate Pickett (publ. Allen Lane, 2009)).

- 8.3 At the level of the firm, another example is that there is also evidence that managerial practices which exclude workers from participation in workplace decisions can lead to inferior productivity outcomes.

## **9. Conclusion**

- 9.1 This is a very brief submission. We have raised our concerns about a renewed journey into the neo-liberal quagmire that contributed to the wide income gap with Australia. We have emphasised the importance of the workplace to multifactor productivity. We have noted that Australian workers have a more equitable wage bargaining framework. We agree that capital investment is crucial and tax changes may assist. We believe that measures and new investment vehicles are required to support NZ equity stakes alongside FDI. We have supported a Productivity Commission.
- 9.2 We encourage the Taskforce to be broad-minded, open to the full range of discussions around productivity, and be willing to consider a wide range of policy options. For instance a green new deal can include major changes in technologies and new efficiencies. The Scandinavian economies combine innovation, export success and high incomes and most have consistently high levels of productivity. New measures of welfare are challenging the notion that GDP captures what we most value.
- 9.3 We look forward to further opportunities to engage.

# Appendix 1

## Real GDP per capita as ratio of OECD average

