

INFLATION & INCOMES ACT

Addressing long-term inflation and increasing
disposable incomes of working people

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

nZCTU
Te Kauae Kaimahi

Executive summary

This paper seeks three things for New Zealand.

1. To change the conversation around how we address inflation. Currently, inflation is seen as a short-term crisis associated with international economic disruption. In reality, it is a long-term issue associated with New Zealand's present economic model. This model has delivered decades of underinvestment in the economy and in the public realm. It has become inflexible to changes in demand, our shifting needs, and policy priorities.
2. To tackle our over-reliance on the Official Cash Rate. This includes the negative effects that the OCRs use has had on the economy as a means of subduing inflation. New Zealand should instead legislate a new set of targets and options around inflation. We should be targeting the worst kinds of inflation — rent, food, fuel — rather than general inflation. We need a new approach that builds greater resilience to inflation in New Zealand and builds a more equitable economy in the process.
3. To offer a new suite of government policies and investment options to address inflation and the cost-of-living over the long-run. We need to shift our economic objectives to deliver wellbeing, instead of just delivering economic growth. We should properly finance our economic development, infrastructure, and public service needs so that we can respond effectively to inevitable economic change.

Above all, we want to start a better conversation about inflation in New Zealand. One based upon delivering the economy we want, not just dealing with the economy we have. We know low-income workers and beneficiaries are disproportionately impacted by inflation.

We need to develop alternative measures that reduce inflation without driving unemployment higher. We want to hear from you about how we can build a better future for Aotearoa New Zealand.

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Our challenge in a post-COVID economy

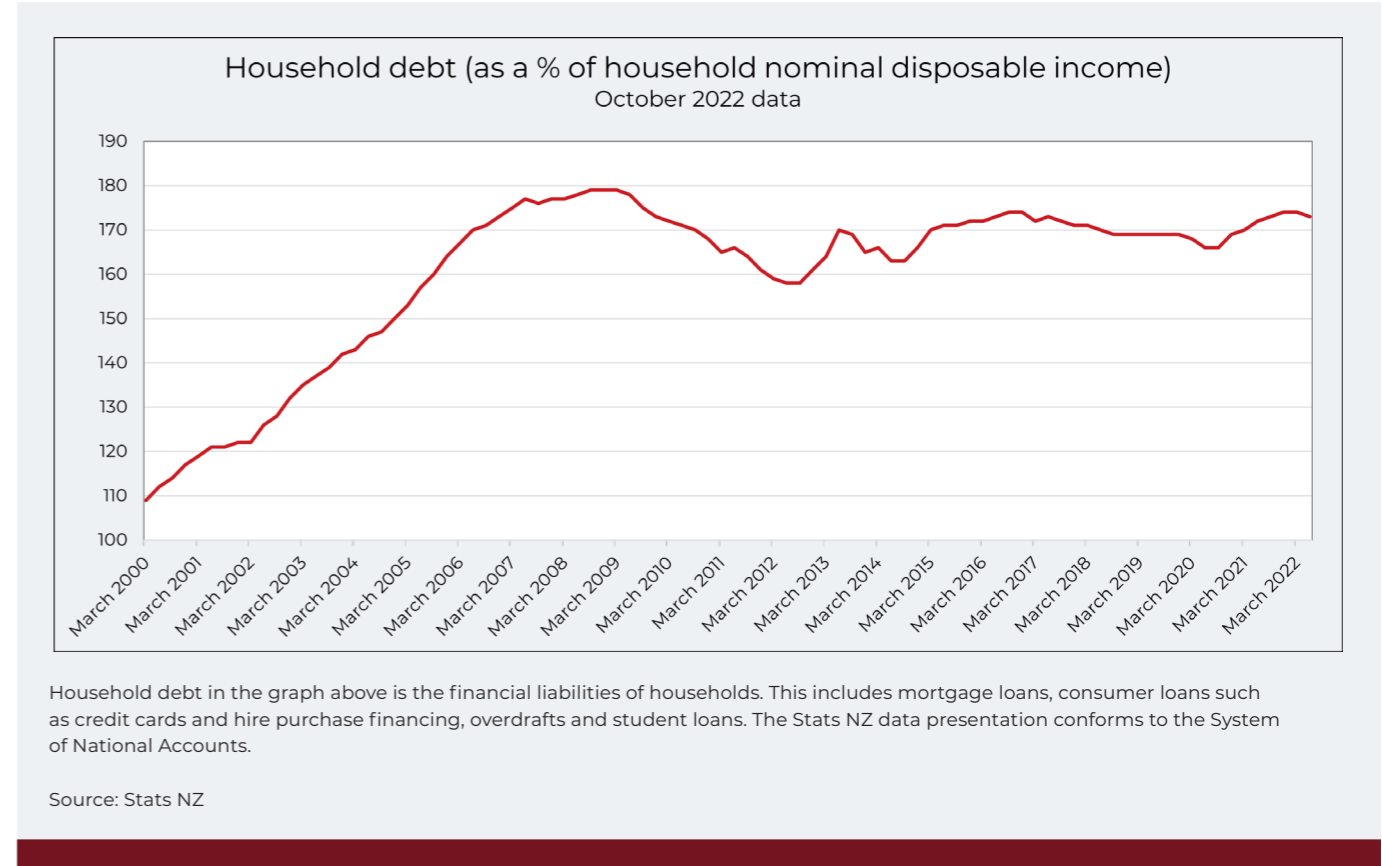
The definitive history of the current Government has yet to be written. But when it is, it will be a story of crisis management. March 15th, Whakaari / White Island, COVID-19 have profoundly affected every person who calls this country home. These crises were dealt with through a mix of government action, public support, and leadership. Through adversity, better outcomes for New Zealanders were forged. We realised that we are not passive players, but active participants in our own futures.

Right now, another crisis is dominating the headlines — rising inflation and the cost of living. More than a decade of globally low inflation had led many to assume that inflation was a problem that did not require new solutions or new actions.

The drivers of much of our inflation concerns start from overseas. As a result of COVID-19 shutdowns around the world, supply chains began to close up. The war in Ukraine meant the cost of basic commodities such as oil, gas, and coal rose significantly. As countries emerged

from lockdowns, demand spiked as companies sought to rebuild inventories or find new lines of supply. Those externally derived demand-changes eventually bled through to domestic inflation. For example, fuel prices drive the costs of many goods and services.

Efforts to address the impacts of inflation have been focused on monetary policy. The Official Cash Rate (OCR) in New Zealand, and their equivalents around the world, have been lifted repeatedly. The OCR is a powerful tool, albeit

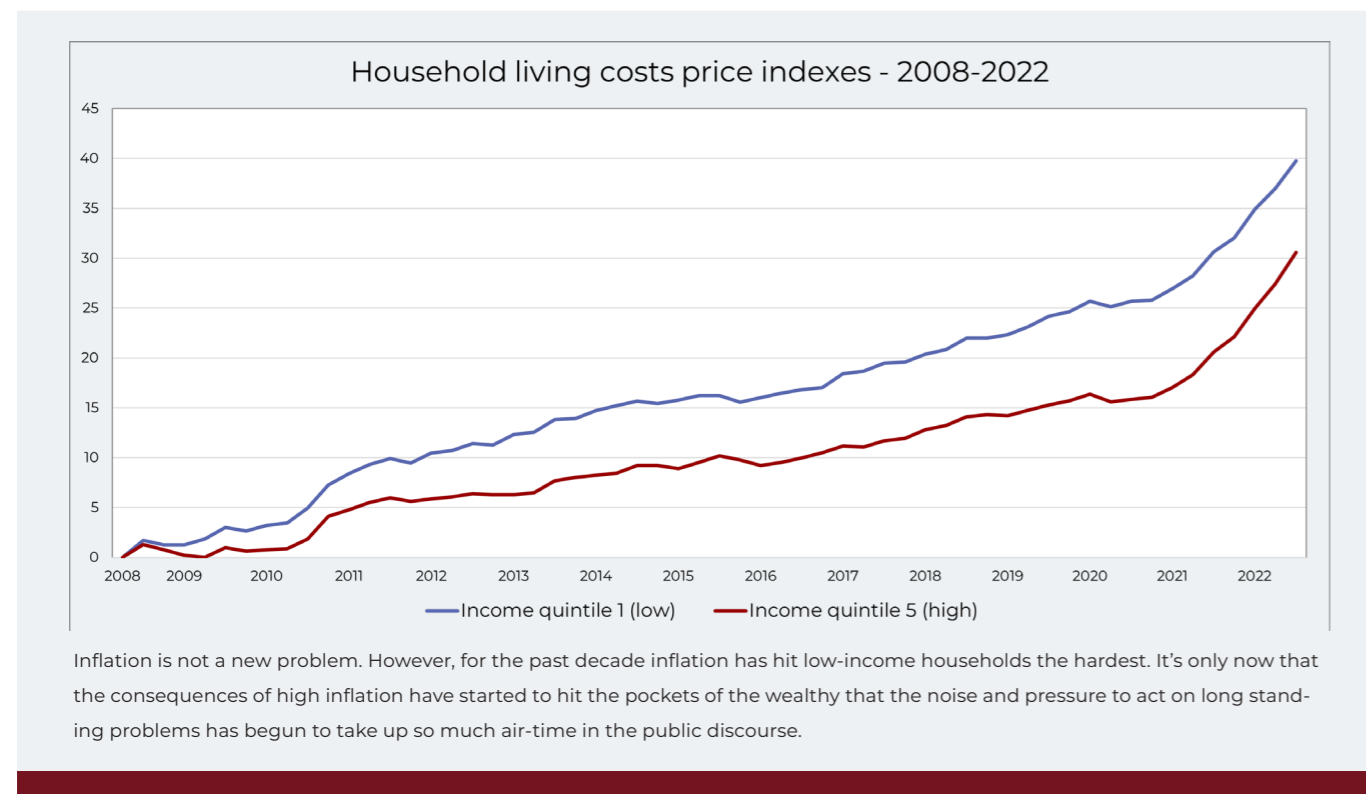


blunt in how it works. It seeks to influence how people think about inflation in the future by reducing demand today. After more than a decade of low-interest rates, many working people are now finding their day-to-day cost-of-living challenges compounded by growing mortgage repayments.

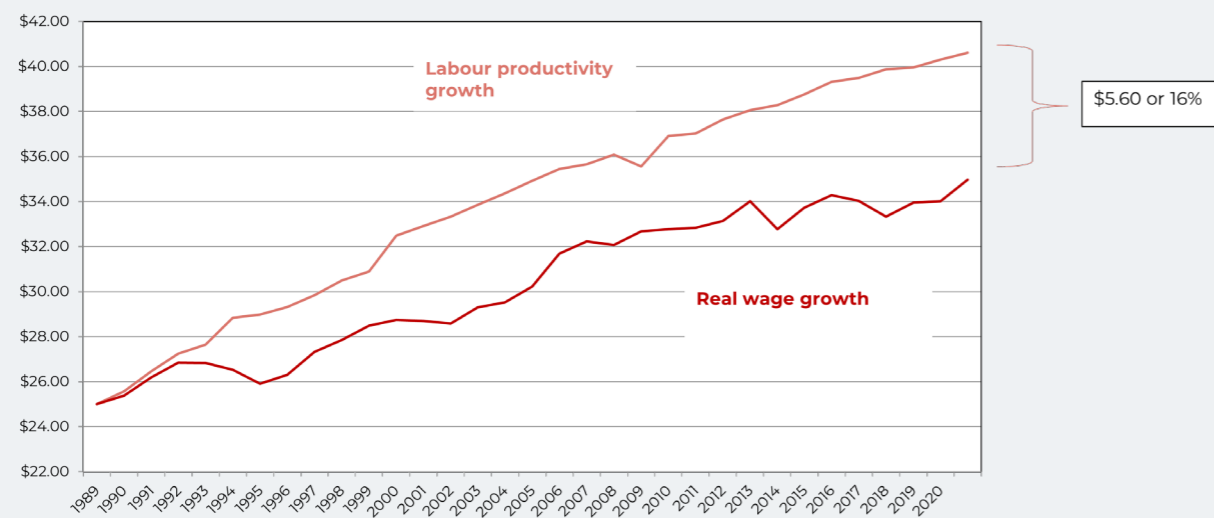
Inflation is not a new problem. For many New Zealanders, inflation has never felt low. Low-income working people and beneficiaries have faced consistently higher inflation. The costs of the essentials in life — food, fuel, energy, shelter, and health — have risen faster than the cost of other goods. If you can barely put food on the table, the fact that a computer is marginally cheaper is of little comfort.

Recent higher inflation simply makes that quiet misery even worse, with those on low-incomes falling further behind. It's only now, that the consequences of high inflation have started to hit the pockets of the wealthy that the noise and pressure to act on long-standing problems have begun to take up so much air-time in the public discourse.

New Zealand is capable of developing a future-focused economy via a 'just transition' framework. This framework allows the costs, benefits, and opportunities of change to be shared equitably. Additionally, it strengthens the ability of communities, workforces, and industries to determine their own futures. It's imperative that we don't perpetuate a system that simply forces those on the lowest incomes to carry the cost of economic change.



Gap between real wage growth and labour productivity growth
Compensation of employees per hour in Market sector 1989-2021



A recent Productivity Commission report shows that New Zealanders worked on average 34.2 hours per week, higher than the OECD average of 31.9 hours per week. On a five-day week, we are working three weeks longer a year. In 2021 New Zealand produced \$68 of output per hour worked, \$17 less than the \$85 of output per hour worked of other OECD countries.

There is nothing just or equitable about our current textbook reactions to economic change and shocks. Many of our go to fixes are frequently band-aid responses to longer-term, more complex problems. Such as a lack of adequate, healthy housing for both purchase and rent.

Over the past decade, New Zealanders are spending more and more of their income on rent, leaving less money for food, transport, power, and raising a family. In 2009, disposable income represented 64% of an average workers take home pay. Today that's been reduced to 54%.

Too often, our reactions simply shift a problem onto someone or something else. Our current approach is asking 70,000 low-income workers

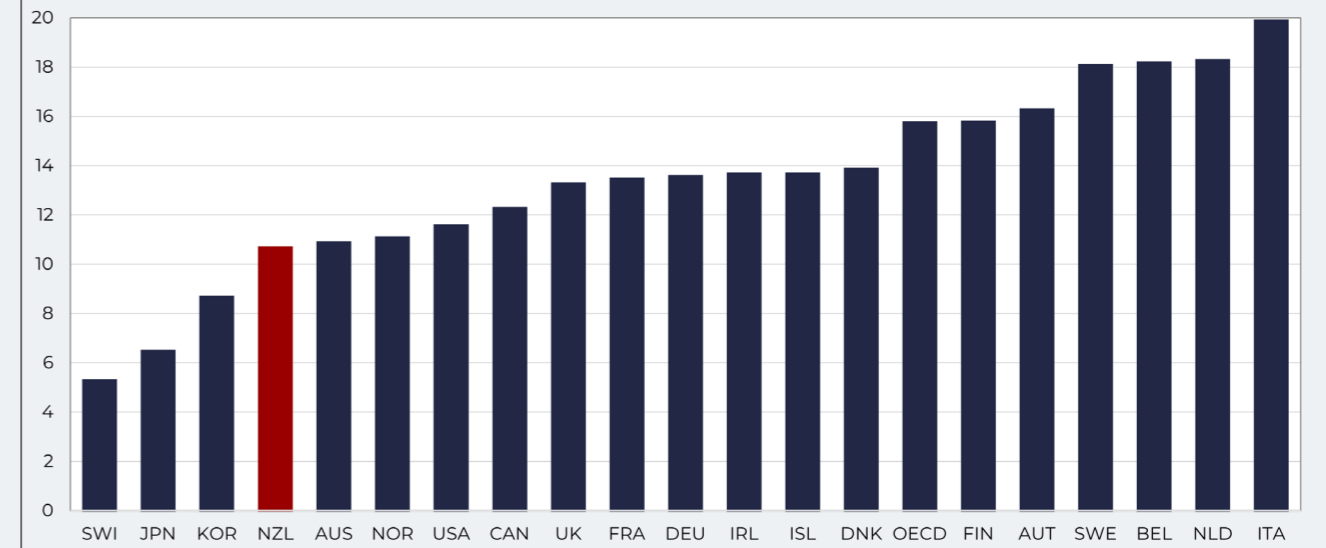
to lose their jobs² and take one for the team of 5 million, so that the well-off can enjoy cheaper grocery items once again. It is policy at the expense of those most vulnerable.

Our failure to invest in a more sustainable economy and society has meant that we are at the mercy of the global oil price. Our failure to generate genuine competition in markets has seen the price of critical goods and services spiral, especially at the supermarket.

Similarly, our failure to invest in our workforce needs has led to a shortage of skills, and a woeful productivity record. New Zealanders work some of the longest hours in the OECD, and yet working people are not seeing a return on their long hours.

² The Reserve Bank of New Zealand, November 2022 Monetary Policy Statement.

Misery index - selected OECD countries
November 2022 data



The misery index number is the unemployment rate plus the inflation rate. Unemployment and inflation are running significantly lower in New Zealand than in most other developed countries. According to a Motu Economics study, *How does monetary policy affect welfare? Some new estimates using data on life evaluation and emotional well-being*, a one percentage point rise in the unemployment rate has 4.6 times as large an effect on sadness as a one percentage point rise in inflation.

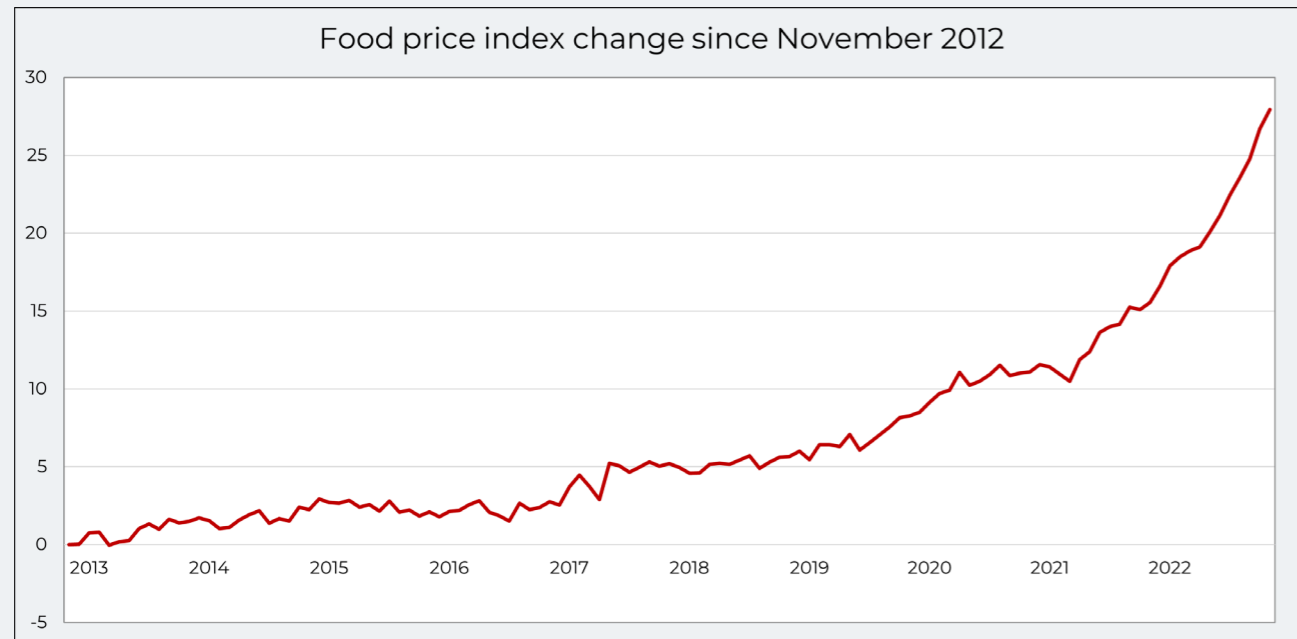
Inflation can only wreak the havoc it is currently delivering because we have failed to plan. Our response to COVID-19 showed us what was truly possible. Our response to current inflation, however, has been characterised by a return to short-term partisan thinking. We have become obsessed with reducing inflation quickly, and with little thought for the consequences on individuals and communities. Others seek to exploit the opportunity to cut support for the most vulnerable.

We must move away from our current economic approach. We should care about tackling both the corrosive effects of inflation today and preventing it from reoccurring in the future. This means investing to lift our productivity, not short-run tax cuts. It means delivering economic

wellbeing, not just economic growth. We might tackle inflation now, but if we fail to address inflation and cost of living pressures properly, it will emerge again in the future.

It is time to display the characteristics that have seen us through previous crises. Direct government action should be taken to help reduce blockages such as supply chain constraints. We need to build stronger public support for action on housing, including the building of many more houses in New Zealand and changing the taxation treatment of rental housing.

We need strong political leadership to make investments in our economy so that we are less reliant on inflationary imported products such



This chart demonstrates the change in the Food Price Index in New Zealand — a Statistics New Zealand measure of food pricing. Since December 2020 food price inflation in has accelerated. Food pricing — particularly basic foods — drives inflation for the poorest groups in society who cant escape these rising prices.

Source: StatsNZ

as oil and coal. We need to reduce the cost of heating homes and address climate change before it leads to irreversible environmental harm. We can build the economy of the future with a high skilled, high wage workforce . A more productive, sustainable, and inclusive future.

We believe that the rules of the game for inflation need to be changed. To do this will require new laws, new policies, and new investment. A commitment to a more equitable economy means changing how we both perceive and respond to our economic and inflation issues. It's time for an Inflation and Incomes Act.

The purpose of the Act

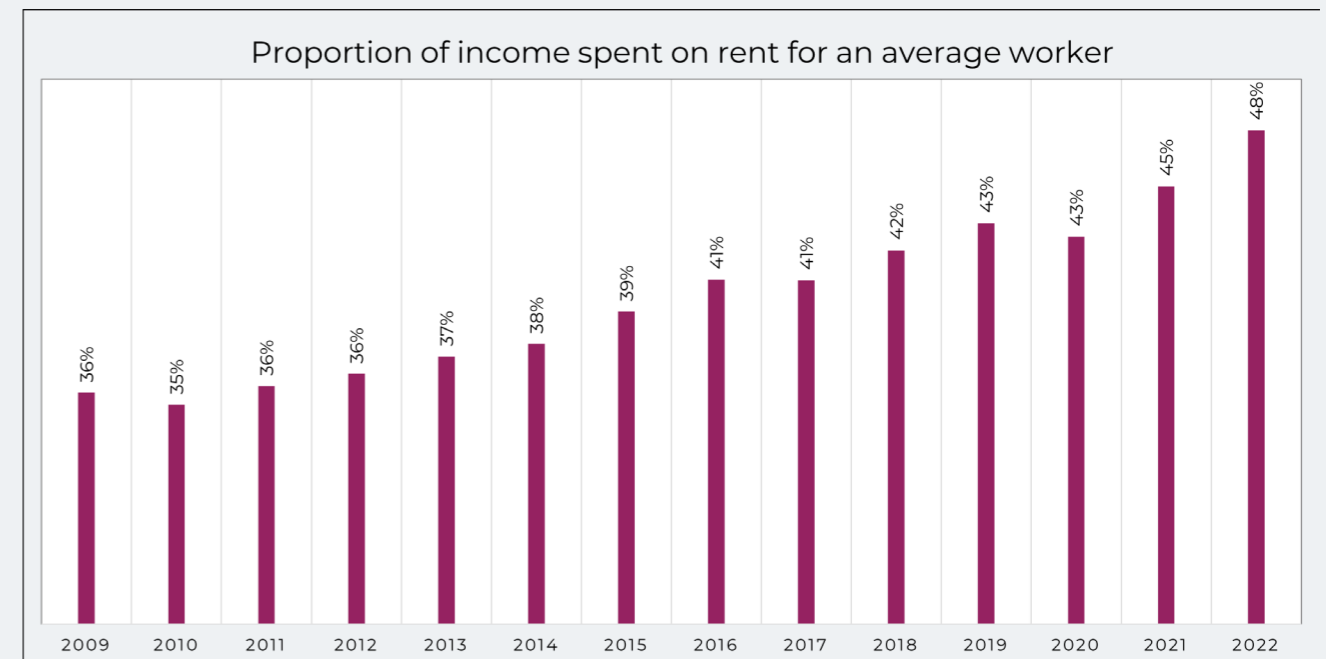
The NZCTU believes that if the cause of the inflation and cost-of-living problem is the lack of a long-term plan, then the best way to achieve a solution is to deliver one. We are calling for an Inflation and Incomes Act. The Act will create the framework for how New Zealand manages its transition to a long-term, low-inflation environment. This includes setting out how we will build a more equitable future without loading the costs onto low-and middle-income workers. Through the Act, the Government will set out programmes and deadlines for change so that New Zealanders can have confidence in their delivery.

The Act would require the Government to target 'core inflation', and to stabilise that inflation rate over the next 10 years. The NZCTU defines core inflation as the inflation basket of the poorest 20% of households. The poorest 20% is defined by Statistics NZs household living-cost price index.

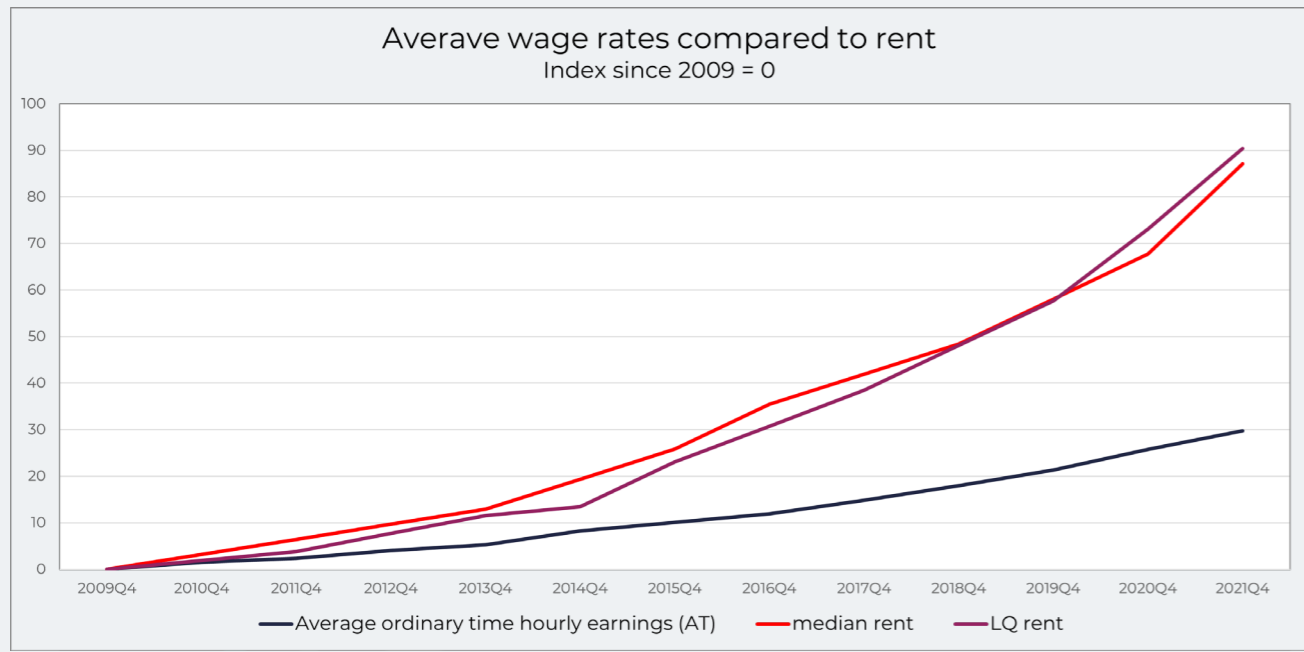
Financial Stability Report statements. The Reserve Bank will be required to publish a letter setting out how the Government is delivering on, or failing to deliver on, this target. This will include an assessment of what the consequences of that failure are likely to be.

The Reserve Bank will be asked to assess whether this is being delivered as part of its 6-monthly

The Act will have a particular focus on rents, with the aim of ensuring the median rent in New



In 2009 an average wage worker spent 36% of their take home pay on rent, in 2022, that same worker on the average wage spends 48% of their take home pay on rent. The Act will have a particular focus on rents, with the aim of making sure that the median rent in NZ is no more than 30% of the median household income. Source: NZCTU analysis of MBIE and Stats NZ data.



Earlier this year median rent in Wellington hit 97% of a minimum wage workers take home pay. In October 2021, an average wage earner on \$36.5 per hour would also need to work an additional 6 hours labour to cover rent for the same property in 2009. Today, an average wage earner spends today 50% of their salary on rent. In 2009 this was a much lower 36% Source: NZCTU Analysis

Zealand is no more than 30% of the median household income. This will be assessed at the Council level. The Government will need to demonstrate publicly how it intends to achieve this goal within a 10-year period. Alongside this, the Government will be required to publish how many households live in energy poverty. It will be required to show what actions it is taking to reduce this number, and what impact that work is having.

The Government will need to demonstrate from a distributional perspective how it is delivering a Just Transition. The Government will be required to show at Budget that its policies in this area contribute to its overall economic strategy and to child poverty targets. The Government should also demonstrate what impact these policies are having on expected unemployment.

The Act will require the Government to set targets to increase the disposable income of New Zealanders over time. This could include targets aimed at lowering the cost of housing, reducing cost barriers to essential services, and creating a more equitable taxation system.

The next section of this document outlines some proposals that could give life to the requirements of the Act. These actions we believe would help to manage both the short-term and the longer-term impacts of inflation.

They won't be a complete set, and we want to hear ideas from you as to how they can be expanded. We must move beyond the conversation of blame, and instead start a conversation of how we build a better future together.

Outputs and goals

The Act will require the delivery of policies to ensure New Zealand's economy is more productive, sustainable, and inclusive. One that is capable of growing in a way that tackles our long-term economic problems, while delivering durable improvements to New Zealanders' wellbeing. It will invest to provide a country that is the best place to be a child, a worker, and a business. Climate change, COVID-19, and geopolitical activities have a tremendous impact on the cost and quality of living for ordinary people. The pricing of petrol, housing, and grocery products in New Zealand has been outstripping many of our OECD counterparts for decades. This is nothing new, but we should do something about it. Here we present a better way forward for Aotearoa NZ.

Our inflation response should assist the creation of new, good, green, and sustainable jobs. Good, green jobs contribute to climate resilience as they have the dual benefit of long-term employment, business, and industry stability. As well as long-term certainty for industry outlook.

New Zealand currently generates 20% of our electricity via coal and gas — the same as 10 years ago. Alongside this, we have failed to invest in new green electricity generation. The last major investments were through the Ministry of Works.

Green jobs offer a better long term investment than their fossil fuel counterparts. The Green Jobs Advantage² shows that climate-friendly investments create more jobs per dollar invested than their fossil fuel counterparts. They create more high-skilled jobs as many fossil fuel industries are highly automated and capital intensive. Clean energy & sustainable infrastructure jobs hire more workers.

This is an example of how tackling our economic

problems also tackles our long-term inflation concerns. Removing petrol and diesel cars from our vehicle fleet reduces both carbon emissions and our reliance on imported fuels. Mass transit, electric vehicle manufacturing, and related infrastructure creates more jobs than servicing internal combustion engines (ICE).

It's time to tackle New Zealand's intertwined inflation, equity, and growth challenges. To do this, we lay out the following policies below:

... addressing energy security and climate change by ensuring infrastructure resilience, environmental and health impacts, and concurrent price stability...

- Committing to closing Huntly Power Station and ending our reliance on imported coal, via a Just Transition. Encouraging energy companies to invest in the production of new green energy capacity.
- Addressing our addiction to petrol and diesel

2 Jaeger, J., G. Walls, E. Clarke, J.C. Altamirano, A. Harsono, H. Mountford, S. Burrow, S. Smith, and A. Tate. (2021). "The Green Jobs Advantage: How Climate-Friendly Investments are Better Job Creators." Working Paper. Washington, DC: World Resources Institute. Available online at <https://doi.org/10.46830/wriwp.20.00142>.

3 Bond, J (2021, August 12). Genesis carbon dioxide levels up 82% compared to previous years. RNZ. <https://www.rnz.co.nz/news/national/448994/genesis-carbon-dioxide-levels-up-82-percent-compared-to-previous-years>

by providing further incentives to transition to a fully electric private vehicle fleet alongside EV infrastructure. Currently, New Zealand has one of the developed world's oldest and dirtiest private vehicle fleets.

- Planning and kick-starting a Just Transition to a fully electrified public transport system, together with a more equitable public transport funding mechanism.
- Providing a date for the end of new ICE imports. The European Union has banned all ICE imports from 2035.
- Progressively bring the energy generators back into public ownership, using the profits of the operators to buy the public shareholdings of the firms. Set the generators the target of providing stable pricing, and 100% renewable energy generation.
- Creating much wider access to subsidised insulation and low-energy heat sources. This would be available to homeowners and to landlords. Provide low-interest loans for significant upgrades.
- Consistently seeking to improve new building standards, increasing both the thermal quality and building durability.

... addressing the long-run cost of living pressures New Zealanders face in core inflation, by encouraging investment and competition ...

- Acting decisively to increase competition in the grocery and supermarket sectors by opening up Crown land for new development.

- Changing the Overseas Investment Act to encourage investment in sectors that are demonstrating a low level of competition.
- Investigating tax advantages for overseas companies moving to under-competitive markets in New Zealand, who have no existing presence here.
- Introducing a windfall tax on the excess profits of energy, petrol and supermarket companies, designed to disincentive price hikes, price gouging and protect workers' wages.
- A levy on the larger banks, to ensure bank profits made in New Zealand stay here and contribute to our economic development.
- Providing more resources and powers to the Commerce Commission to police markets in New Zealand. Reverse the burden of proof for competition market cases.

... increasing disposable incomes and ensuring New Zealanders see more reward from the value they help create in the workplace and care economy ...

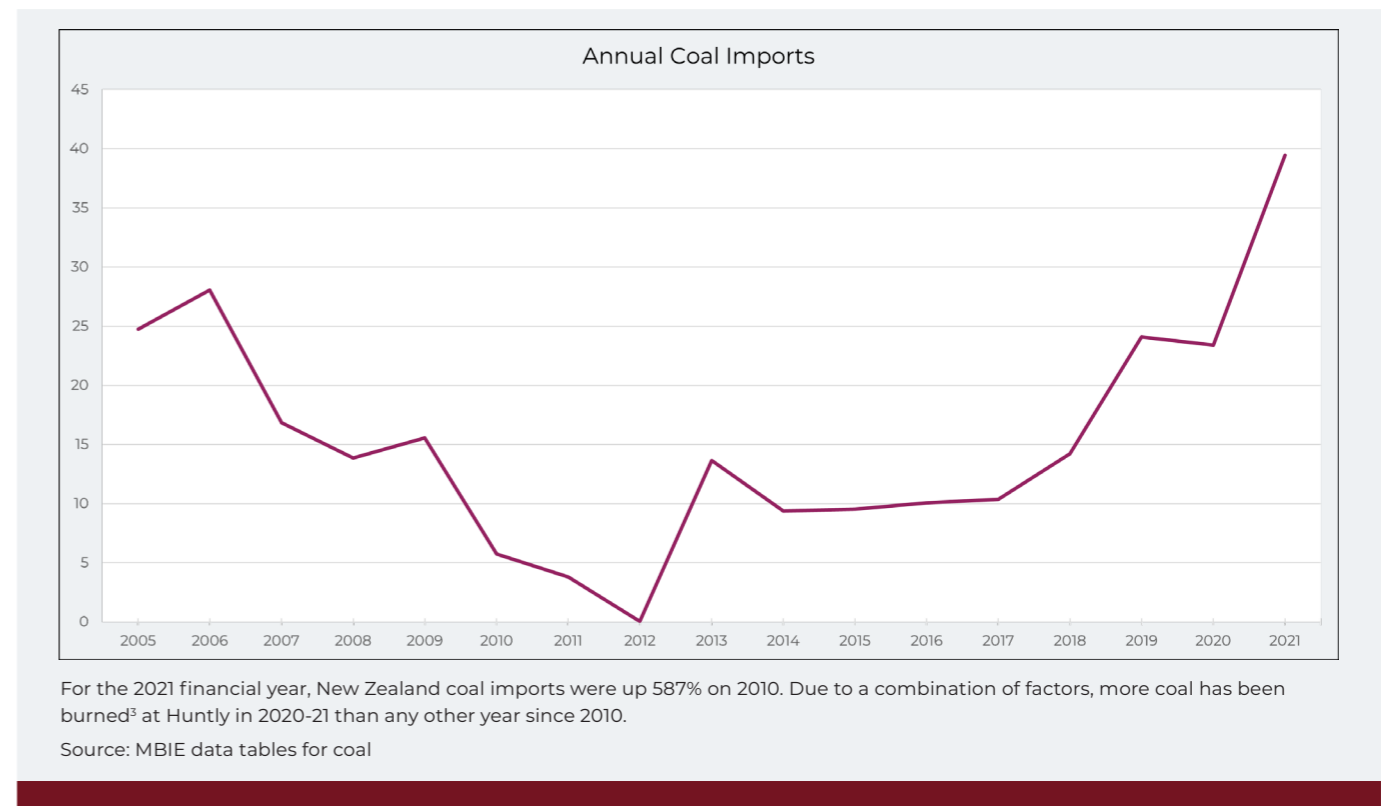
- Ensuring a fairer and more progressive tax system by creating a tax-free threshold. This would be revenue neutral, paid for via a tax switch onto higher marginal rates, together with alternative forms of taxation.
- Ensuring contractors are covered through Fair Pay Agreements and expanding coverage so that minimum terms and conditions are prevalent across most of the economy.

- Making the minimum wage the Living Wage, and setting the rate in the future via a tripartite process involving business, unions, and the Government.
- Reducing the burden of student debt repayments by making the scheme more progressive, as is the case currently in Australia. Currently, the amount student loan borrowers must repay each year is 12% of every dollar earned over the repayment threshold. Meaning that the effective real income tax rate for earnings above \$70,000 is 45%. In comparison, the wealthiest income earners in New Zealand pay only 39%.
- Introducing a first home buyer mortgage product, with a fixed interest rate for 25 years on Crown-built new properties. A new State Advance loan would see mortgage holders

benefit from stability of repayments. It would also create a pipeline of demand for new Crown construction through a Ministry of Green Works.

... Ensuring the health and wellbeing of New Zealanders ...

- Lowering the cost barrier for access to national health services, including general practitioners, pharmaceutical, and dental care.
- Further expanding support and access to effective and culturally appropriate mental health services. This would have the long-term goal of making access to mental health services as simple as accessing your local GP. Prioritising access for those under 18 and those with long-term mental health conditions.



- Providing free public transport during weekdays for those attending school.
- Further extending the free/low-cost school meals programme, so that all children receive a hot meal at least once a school day.

... Providing an enduring solution to New Zealand's housing crisis, making housing more affordable to build, rent and own...

- Reinvesting in the state's capability to build at scale through a Ministry of Green Works. This would rebuild the state's capacity to plan, build, and train its workforce. It would reduce the long-run costs of building housing, infrastructure, and provide an enduring solution to our housing shortage.
- Reshaping the incentives to ensure housing

is seen as first and foremost a place to live, and where warm, dry, affordable housing is normal in New Zealand. We would do this via a comprehensive capital gains tax excluding the family home.

- Addressing the supply chain blockages in building materials for construction. Encouraging new entrants into the market, and adopting comparable overseas quality control marks.
- Examine how changing housing certification from Local Authority control to Builder/Supplier certification might enhance construction productivity. Options include new build homes being certified with a 10-year insurance-backed guarantee.
- Expanding and regulating off-site manufacturing

and improving access to appropriate overseas products. This will lead to increased construction quality and productivity.

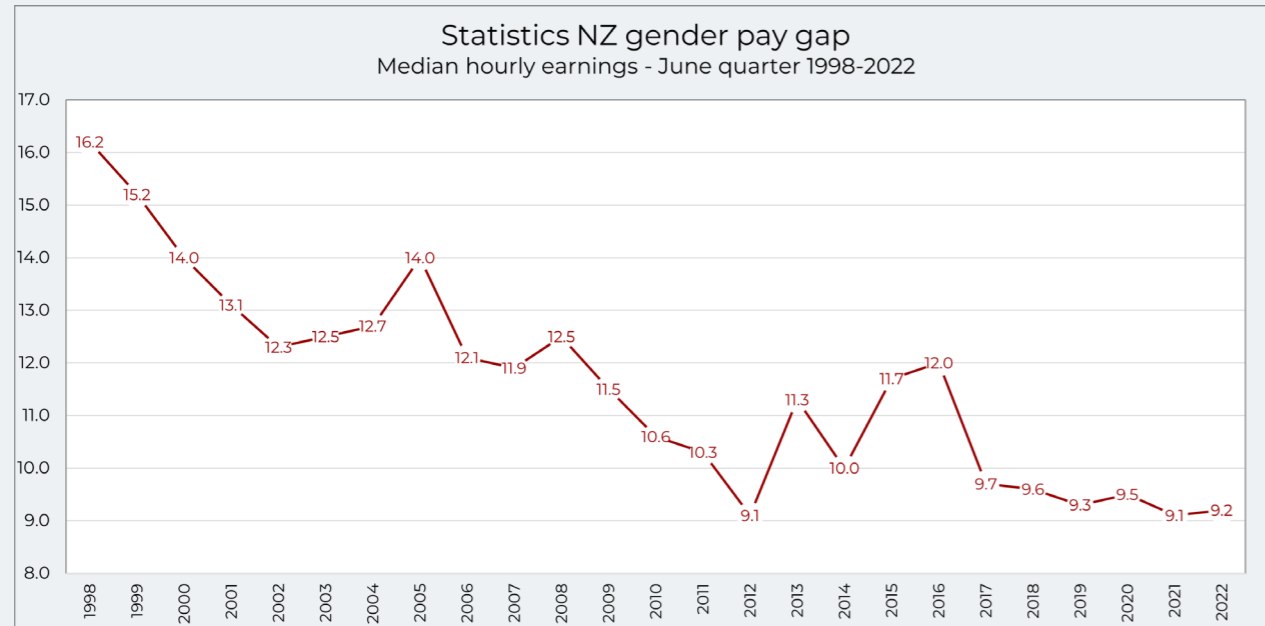
... Creating good, green jobs that are high skill, high wage and contribute to higher productivity...

- Targeting public sector investments in sustainable, green infrastructure that encourages the creation of green, high-wage, high-skilled jobs.
- Encouraging the adoption of the skills necessary for the new green economy through the greater use of active labour market programmes, and through new and existing Just Transition Partnerships.
- Providing free high-quality public Early Childhood Education (ECE) progressively

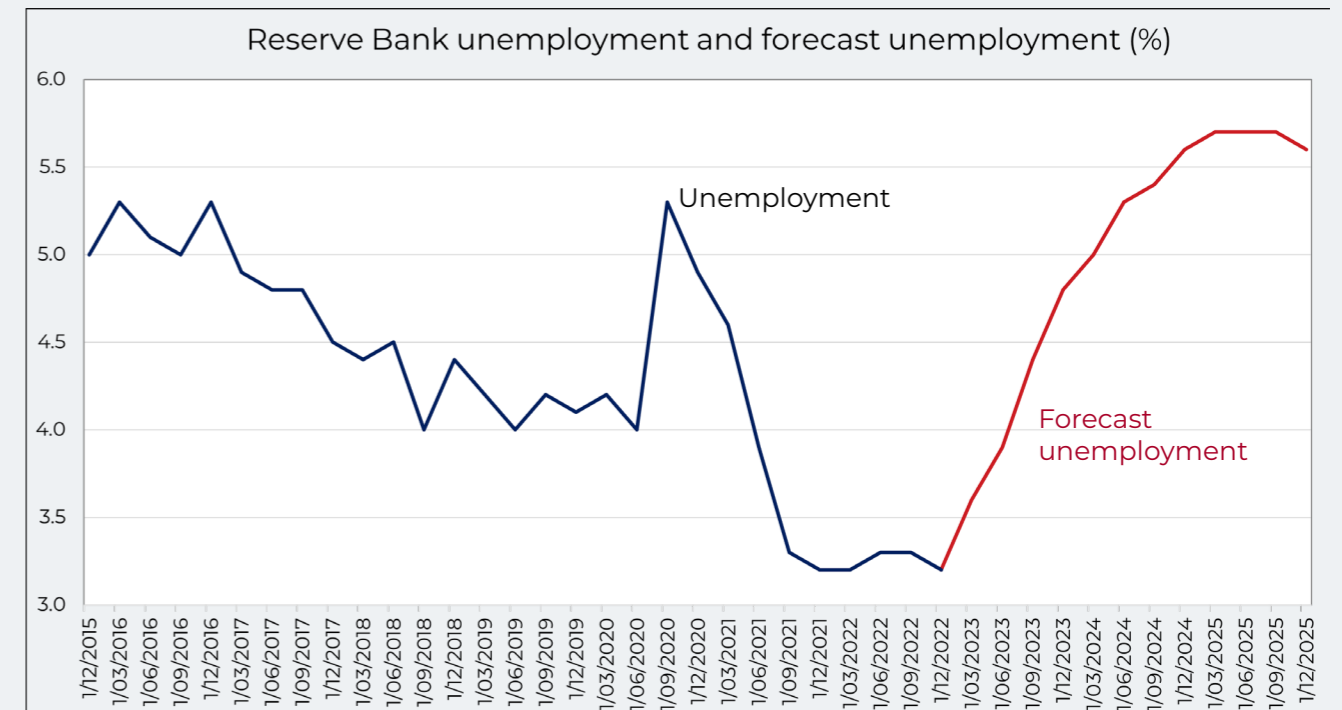
over 10 years. This would increase access and participation in the labour market, alongside reducing the gender and ethnic pay gap.

... Making New Zealand a world-leading Research and Development centre...

- Encouraging the opening of overseas (satellite) campuses for prestigious foreign universities and learning institutions in New Zealand.
- Expanding the funding available for public and private research and development, including through an expanded tax credit regime.
- Exploring the possible use of a 'Patent Box' for New Zealand, so that innovations designed and developed here stay here.



It's been 50 years since the Equal Pay Act and yet over the past decade the gender pay gap has remained largely unchanged. The current gap of 9.2% is an increase on 2012's low of 9.1%. The pay gap for Māori women in comparison to Pakeha men is 23% and for Pacific women it is 24%. At the current rate of reduction, it would take 120 years to close this gap. One of the best things we could do to increase the incomes of Māori and Pacific women would be to make closing the pay gap a priority.



Fiscal approach

Many of the countries we wish to emulate have very different approaches to investing, revenue, and debt. They also have much higher levels of government spending and consequently better public services. Our inflation and economic challenges are compounded by our current fiscal system, which encourages a short-term focus on stability and an overly conservative position on debt. There is no government debt crisis in New Zealand, but we behave as if there was one permanently around the corner.

The inflationary consequences of our attitudes towards government investment and debt are stark. Historical underinvestment in the economy, and public services, leads to price rises when there are increases in demand. Sustained underinvestment has left us with little flexibility to respond to changing needs, growing populations, or economic shocks.

We entrench increases in demand by failing to build enough public goods and services,

and by charging for access to public services like GP appointments. This stores up expenses for everyone, as earlier interventions in health, housing, and education are often cheaper and more effective.

We do this, ironically, to protect the public finances. However, this simply results in a liability for future generations, who will have to pay to backfill our lack of investments.

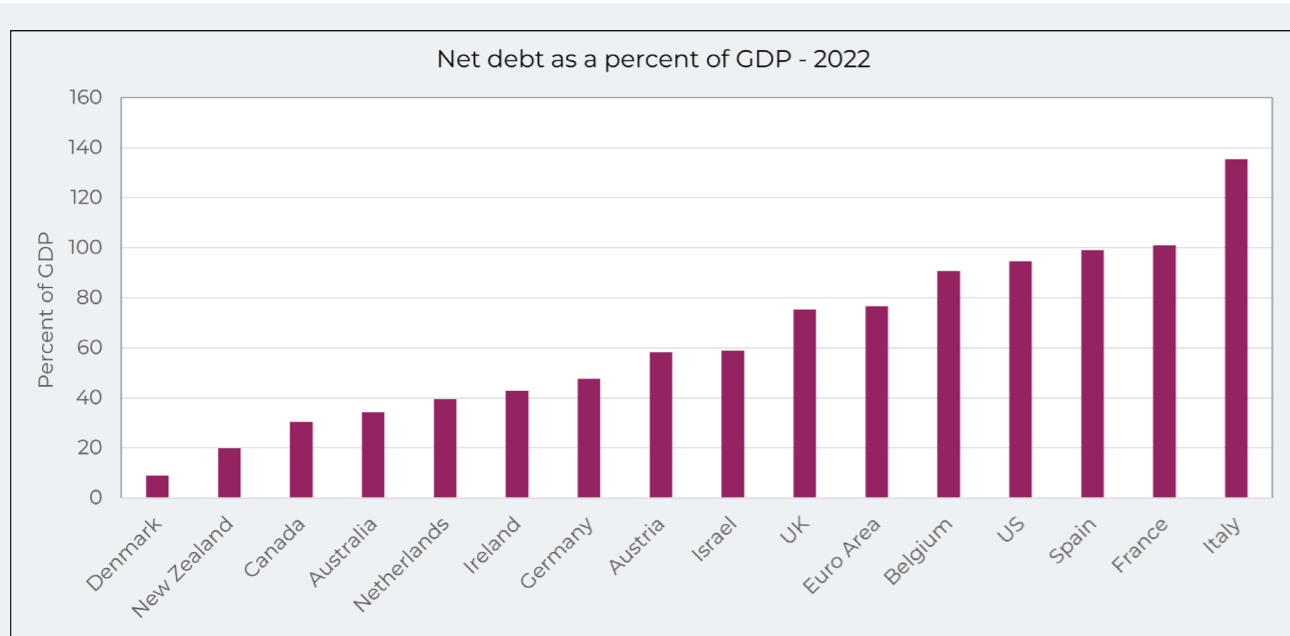
To illustrate the point, we know the cost of building Dunedin Hospital over the next decade. But what we don't know is the true cost of *not* rebuilding Dunedin Hospital over the many years when it should have been started. The cost in terms of misery, lost employment, lost medical training, and lost economic output is a measure that is not calculated — and so never considered.

It's time for a new approach...

- Increase the government capital spending allowance, consistent with keeping Net Core Crown Debt sustainable. Sustainability should be based on financing costs, rather than arbitrary debt-to-GDP ratios.
- Provide greater clarity is required on the expected demands of our economy and public services. We should be ensuring that the public is informed of the expected costs and liabilities for health, education, and transport over a ten-year time frame.
- Create a new 'value for money' approach within the government. An approach that makes clear not only the financial consequences of investment but the social

and community consequences. Value for money should highlight the cost of non-investment — the true opportunity cost. It would produce an estimate of the 'liability' the Crown faces for future expenditure set alongside the debt and operating balance consequences of an investment.

- Commit to a long-term goal of increased government expenditure. Deliver this change via the creation of a more equitable tax system including new taxes on capital, wealth, and anti-avoidance activities.
- Kickstart our investment needs through a one-off windfall tax, levied on those companies and sectors that have seen significant profit growth through the COVID-19 period.
- Create a new capital grant regime, so that interest forgone is not classified as a loss to the Crown. This would facilitate the creation of more repayable grants at Crown borrowing cost, repaid over time by New Zealanders and New Zealand companies seeking new opportunities.



The graph above shows that New Zealand has one of the lowest debt-to-GDP ratios in the OECD. Source: IMF

Next Steps

The NZCTU wants to engage with New Zealand on the proposed Act. How its contents and policy settings can be most effective at tackling inflation and long-run cost of living challenges in the New Zealand economy.

In particular, we are keen to hear how strategic investments might reduce New Zealand's long-run inflation, improve productivity, and open up opportunities to improve our economic wellbeing. How tackling the root causes of the failure of our markets, might improve outcomes for everyone.

The findings from this work will be captured in our Alternative Economic Strategy *Building a Better Future for Aotearoa* — available at www.buildingabetterfuture.org.nz.

We encourage everyone with ideas to contribute to the debate about how we genuinely tackle inflation while building wellbeing.

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