



New Zealand Chambers of Commerce (Inc)

Submission

The Prime Minister's Summit on Employment

February 2009

Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand. We welcome this opportunity to make comments to the Prime Minister's Summit on Employment.

Policies to Improve Productivity and Grow the Economy

Prior to the 2008 General Election, NZCCI published a manifesto which outlined a set of policies which would best enable business to flourish and be best for the health of the New Zealand economy. The theme for the manifesto was productivity. It is productivity that will drive growth in the economy and it is productivity that will allow employment and wages to grow. Unfortunately our productivity growth performance relative to our competitor economies has deteriorated over the course of this decade.

Six months on from the preparation of our manifesto we see a changed international and domestic environment. The international financial crisis has bitten deeper than we had anticipated and our own economic performance has deteriorated more quickly than we had envisaged. What was a very tight labour market has eased significantly.

Even though our situation has changed dramatically we see no reason to change the theme of our policy prescription. To achieve sustainable growth, government policy must be actively pro-business. The government cannot run the business sector, but it can support it and remove barriers to its success.

However, we do acknowledge that the special circumstances of the global economic crisis justify some pragmatic government action beyond what is proposed in the manifesto. Our proposals are detailed in this submission.

NZCCI's manifesto is [attached](#) and should be read as part of this submission.

Additional Measures to Preserve Jobs through the Recession

Most of the proposals outlined below are pragmatic temporary, one-off measures in response to the current economic environment. We believe the policies in the manifesto remain the best way to achieve sustained economic and employment growth over the medium term.

New Zealand businesses are being squeezed by reduced access to credit and cash flow problems on one side and a slowdown in demand (external and domestic) on the other. Both these factors are putting pressures on businesses making it difficult for them to expand or retain their work force at the very least, and to stay in business at the worst.

The following list of proposals are ways for the government to either stimulate domestic demand, or relieve cash flow constraints for businesses thus improving the conditions for businesses to preserve or create jobs over the next couple of years. There are also a number of actions that businesses themselves should be encouraged to take.

It is important to remember that the recession will be of a definite duration. Actions implemented now to ameliorate its affects are welcome but these must not impose greater costs in the longer term.

Workplace Flexibility

It will often be in businesses' best interests to hold on to workers through tough times if they can. Not doing so means businesses will be left with skill shortages when the economy picks up. Furthermore, many opportunities would be missed in the intervening period if businesses are operating on less than optimal staff numbers.

To this end, we encourage flexible workplace arrangements that can avoid the need for businesses to make redundancies. As a rule though these should be implemented at the firm level and should not be imposed from above by government.

The sorts of measures we would encourage include job sharing, inviting employees to take long term leave without pay, reduce their overtime or work part time etc. Employers could also reconfigure jobs or relocate staff across the country to make more use of under-utilised workers.

People considering entering the workforce could be encouraged to consider delaying the decision wherever it is an affordable option i.e. they could use the opportunity to take up study, care for children, travel etc.

Young people could be encouraged to stay at school or tertiary education longer than they otherwise would (which would likely be beneficial in the long term anyway). Early retirement for older workers could be encouraged where appropriate.

The government should consider funding the temporary relocation of people to places where there is a labour shortage or where seasonal workers are required.

Education and Training

We support increased funding for Universities and Polytechs to allow people to re-train and upskill rather than go on the unemployment benefit. We would also support the provision of government funding to employers willing to sponsor staff to

undertake such training. The current funding model has most institutions pretty much at full capacity – any new enrollments are not funded so new enrollments are being discouraged.

Increased skill development will better equip people for when the recession ends and will also increase chances of staying employed in the shorter term.

As well as using the opportunity to train and upskill unemployed people, the government programs in place to provide training for businesses could be reoriented towards preventing job layoffs from occurring i.e. courses along the lines of how to survive in a recession should be offered.

Labour Market Regulations

NZCCI strongly supports a flexible labour market. A flexible labour market is the best way to ensure it operates efficiently so that close to full employment can be achieved. However, there are a number of labour market regulations currently in place which impose unnecessary rigidities and are deterring employers from taking on more staff.

For example, we oppose certain provisions in the Holidays Act and support its review. Employers and employees should have the right to agree on holiday arrangements that suit both parties.

We support the existence of a minimum wage to protect vulnerable workers but we do not think now is the time to raise the minimum wage.

We support measures allowing small businesses a short probation period to dismiss new staff without risking a personal grievance claim.

General Regulation

One area that is contained in our manifesto but deserves special consideration in the current environment is the ironing out of regulatory processes that can impede or slow down private (and public) sector investment. Such obstacles are damaging at the best of times but at a time when increased economic activity is needed to preserve jobs, and investment is otherwise ready to go, urgent action needs to be taken to remove such impediments. The recent proposed changes to the Resource Management Act are supported here for this reason.

Fiscal Stimulus

NZCCI supports the use of fiscal policy to help stimulate the economy in the early stages of the recession. It must however be a short-term measure. In the longer term the goal must be to restore a sound fiscal position, i.e. to return debt to a prudent level, as we come out of the downturn. In responding to the recession, the government must be careful not to fall into the trap of borrow, spend and hope policies that were commonplace in the 1970s and early 1980s.

Fiscal stimulus can be brought about by increased expenditure or reduced taxes. We believe that reducing taxes is preferable to increasing expenditure (See the manifesto for our recommendations on tax policy). Notwithstanding our preference for lower taxes, we do accept the case for some increases in government expenditure to stimulate the economy in the current environment. This should be productive, high-quality expenditure and it should be one-off as opposed to ongoing.

For example, we strongly support the bringing forward of worthy infrastructure investment (e.g. high benefit-cost-ratio roading projects). The proviso should be that they have been approved on their merits, that they were programmed to occur in later years anyway and, of course, that they are ready to go.

While slashing aggregate government spending must be avoided in the current environment, there is a need to increase value for money in all government expenditure. This means a shift from low-quality to high-quality expenditure is required as a matter of urgency with an overall reduction in the expenditure to GDP ratio over time.

Tax Payment Relief

Businesses are experiencing cash flow problems and credit constraints as a result of the economic crisis. The government's tax relief measures, announced earlier this month, including removing the 5% uplift on provisional tax, reducing the use of money interest rates and raising thresholds for PAYE and GST payments to be made are designed to ease these pressures.

This is the sort of pragmatic response we fully support. While the measures are relatively small in themselves, in aggregate the package represents a sizable stimulus. The measures will give businesses flexibility in the timing and making of their tax payments and will be invaluable to some small businesses as the recession deepens.

Government Departments

The recent directive from government to government departments to pay their bills promptly is another example of a small but pragmatic action that will make a difference to businesses' cash flows and may save jobs in the process. Wellington businesses have been talking to us a lot about this recently and we were pleased with this directive.

The government has also asked government departments to constrain expenditure in response to the economic crisis. While we support this, we have uncovered many examples of private sector advisors providing essential work to government having this work cut off because departments are seeking easy ways to cut expenditure. This will impact performance negatively in the medium to long term. While strongly supporting spending constraints, all government departments must review quality of expenditure not just quantity

Monetary Policy

The reduction in the OCR from the middle of last year is well justified especially as inflationary pressures have dissipated and the inflationary outlook is negligible.

The easing in monetary policy is a necessary stimulus and alongside the looser fiscal policy it will boost household and business demand and help preserve jobs. It will also help ease the tight credit conditions currently impeding the financial system.

For this monetary loosening to have its desired affect and feed through to businesses and consumers, banks must continue to be pressured to pass on the lower costs to borrowers.

Banking Sector Measures

We support the banking sector measures that have been implemented including the retail deposit and wholesale funding guarantees. These have provided assurance that the New Zealand banking system remains sound and will relieve pressures on firms making retention of jobs more likely.

Investment Spending

As mentioned above, we strongly support government accelerating some of its public infrastructure investment program i.e. bringing forward certain projects that were scheduled to occur at a later date. This will be particularly effective given the disproportionately large loss of jobs the construction sector has experienced and is expected to continue experiencing.

The same could be true for facilitating private sector investment which may be deferred due to either recessionary fears or lack of capital from banks. A case has been made for government to intervene to assist such early expenditure. This would however be difficult to administer and risky from a fiscal perspective. Consequently we urge caution here.

Don't Resort to Protection

We do not support a government imposed Buy New Zealand Made campaign as a means of protecting New Zealand jobs. This would include restricting government procurement to New Zealand-made products only. It is in the economy's best interests to purchase the most cost effective products.

Even a temporary Buy New Zealand Made campaign, implemented in response and for the duration of the employment slowdown, is not favoured as this could invite retaliation from our trade partners leaving our exporters and the country generally in an even worse situation.

Tourism / Export Education

As the global recession deepens and overseas visitors stay away, New Zealand can expect increased challenges in the tourism and export education sectors with consequential pressures on jobs. We recommend the following as immediate short-term solutions:

- Abolish the requirement for Taiwanese tourists to get a New Zealand visa (UK and Japan have done this and seen big increase in tourist numbers from Taiwan)
- Remove all caps on working holiday schemes (demand for many schemes exceeds the cap)
- Increase expenditure on education and tourism promotion to take advantage of low dollar.

Migration

We do not see increased migration as a threat to jobs. Rather we see increased migration as providing an important boost to domestic demand – not only in the

housing market, which impacts on the hard-hit construction sector, but across the board generally.

The softening labour market means the case for increasing migration to address labour shortages is now less urgent. However, there will still be instances where migration is needed to address specific skill shortages and steps should be taken to speed up these processes.

We also support migration where it brings an injection of capital into New Zealand. For this reason we recommend the following:

- Immediate liberalisation of business immigration rules including language requirements and relevance of formal qualification criteria;
- Changes to rules to allow high net worth individuals to retire to New Zealand.

Emissions Trading Scheme

The proposed emissions trading scheme is likely to have a very detrimental impact on employment. (One Government commissioned study released last year showed that 52,330 jobs could be lost as a result.) Any ETS must not be detrimental to the competitiveness of New Zealand exporters (i.e. it must be as similar as possible to EU, Australian and US schemes and major emitters must be included in new international disciplines). It must not delay our exploitation of coal, gas and oil resources – including coal liquefaction potential.

Productivity Commission

A significant improvement in productivity growth continues to be necessary to secure economic and employment growth in the longer term. A lift in productivity growth will require increased levels of investment and training.

The Australian Productivity Commission has been successful in enhancing productivity in that country and, as indicated in our manifesto, we believe the government should consider replicating it in New Zealand. In the short term we should extend the jurisdiction of the Australian Commission to New Zealand.