

An Active Programme to Promote and Protect Jobs

**Labour's policy response
to the Global Downturn
2008**

Introduction

Labour's plan for achieving sustainable growth is built around six key elements:

- Infrastructure
- Innovation
- International connections
- Savings
- Skills
- Sustainability

Our planning has always recognised that the economy operates in cycles. After a sustained period of growth there comes a slowdown, some reallocation of resources and adjustments to pricing structures before growth is re-established.

Labour's plan has always been about managing the upswings so that they are maintained as long as possible, and ensuring that there is stability in the economy to help reduce both the depth and the length of a downturn. As a consequence of responsible economic management over the past nine years, we have entered this part of the economic cycle in a relatively strong position.

Unemployment has been below 4 per cent for four years.

Projections in the Pre-Election Fiscal Update (PREFU) suggest that, if no new initiatives are taken, over the next two years unemployment may increase to over 5 per cent. While this is still below the levels of unemployment we inherited from National in 1999, it is higher than Labour is comfortable with.

There is no doubt, that the extent of the international financial crisis has dramatically changed the external factors impacting on the New Zealand economy. That change has been so great since the May budget, and even since the PREFU was finalised, that it would not be responsible to wait until our 2009 budget to detail changed investment priorities.

Labour believes that the highest priority at this stage of the economic cycle should be sustaining and creating jobs. At a time when domestic and international demand is falling, the government has the ability to bring forward spending plans which can give a boost to

employment and can better prepare the economy to take advantage of the upswing when it arrives.

For an economic stimulus package to be effective it must:

- be part of a long term strategy to build sustainable economic growth
- be timed to reduce the worst impacts of the recessionary cycle without putting additional inflationary pressure on during the following upswing
- be targeted well, in terms of:
 - geographical focus and
 - employment and capacity constraints

The size of the package will be finalised in December when the government has the most up-to-date information available on the economic outlook. But it will contain elements relevant to a number of the key elements of our overall economic plan, along with projects specifically designed to boost employment in the construction sector.

The initiatives in our package can be regionally-focussed. That is because the pressure on employment will vary markedly around the country. Where regionally-focused initiatives are being considered, the decisions about which areas to invest in will be determined by the extent to which:

- the region is suffering from job lay-offs
- the investment can add to ongoing growth potential for the region

In summary, while our economy clearly faces short term challenges from the fallout of global financial turbulence. Labour will ensure that the current international crisis does not lead to prolonged recession in New Zealand.

Financial Measures

On 12 October Labour announced a retail deposit guarantee scheme to reinforce confidence in New Zealand's financial system. The scheme covers all retail deposits of participating New Zealand-registered banks, and in retail deposits by locals in non-bank deposit-taking entities, such as building societies, credit unions and deposit-taking finance companies

The deposit guarantee is designed to give assurance to New Zealand depositors that their deposits are safe in the current uncertain international financial market conditions.

Working with the banking sector

The slowing economy and the weakening housing market, together with the prospect of rising unemployment, may combine to put a number of New Zealanders with mortgages in a difficult financial position.

The Government has taken action to write to each of the country's largest mortgage lending banks to seek their response to this situation.

Banks have responded with assurances that they have well established procedures in place to respond positively and pro-actively to customers facing difficulty. These include approaches such as:

- proactive contact with customers identified as having difficulty
- temporarily reducing servicing obligations
- capitalisation of interest payments
- restructuring total debt obligations

Wholesale Funding Guarantee facility

The government has also introduced a wholesale funding guarantee facility which will be available to financial institutions which have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company).

This will give confidence to New Zealand's financial sector and will facilitate its access to international financial markets.

Economic Stimulus Package

Labour will before Christmas 2008, present to Parliament an **economic stimulus package** which will:

- bring forward infrastructure spending and job rich sustainability initiatives
- provide additional assistance to the building sector
- legislate for new allowances to support the transition of displaced workers
- legislate for changes to provisional tax to ease pressures on businesses.

Bringing Forward Planned Infrastructure Spend

Rail

There are a number of rail upgrade projects which will be considered for investment ahead of current planning. They include:

- the North South Junction, which would enable the carriage of 9'6" containers between Palmerston North and Wellington port, (at present they are off-loaded at Palmerston North and trucked).
- the Marsden Point Branch line to enable import/export cargos to be transited. At present the line is still located at the old port of Whangarei.
- working with the Ports of Auckland to connect the Wiri inland port complex to the rail network, so thereby reducing the number of trucking movements in the central city, speeding up the processing of containers and reduce the need for storage.
- working with Fonterra to effect a better connection of the rail network with the dairy factory at Clandeboye, to facilitate a more efficient operation for both the coal and the raw milk coming into the factory and the export product going out.

Roading

Planned expenditure on new roads and road renewals is currently around \$1,200 million per annum, rising to \$1,700 million per annum over the next 10 years, covering 600-plus projects. Advice is being obtained from the New Zealand Transport Agency on which individual projects, or what proportion of projects, are capable of being accelerated.

An enhancement of the existing **Financial Assistance Rate for funding local roading** would be available for those regions in need of additional economic stimulus to enable them to bring forward projects such as:

- providing dedicated road space for public transport or other extended passenger transport services
- additional walking and cycling facilities
- street lighting upgrades to improve both energy efficiency and safety
- footpath renewals
- local road maintenance

Sewerage Infrastructure

The Labour-led Government's Sanitary Works Subsidy Scheme assists small- to medium-sized communities to build or upgrade their reticulated sewerage facilities and treatment plants.

Unlike some other infrastructure sectors, the water and sewerage infrastructure sector is largely unaffected by capacity constraints and, with the help of this Scheme, has an established workforce of highly specialised wastewater engineers able to continue work on regional projects, should additional funding be made available. Indeed, the establishment and provision of funding for the Scheme in 2002 served as a catalyst for skills development in this area, and led to an increase in specialisation in wastewater engineering.

It is estimated that of the unfunded applications received to date, approximately 10 to 20 per cent could be progressed immediately. These could include:

Community/Council	Potential Subsidy \$M
Whangarei Heads (Whangarei DC)	8.95
Huapai (Rodney DC)	7.33
Brunswick/Rotokawa (Rotorua DC)	6.22
Okareka (Rotorua DC)	5.18
Muriwai (Rodney DC)	4.09
Eltham (South Taranaki DC)	3.53
Parua Bay (Whangarei DC)	1.09
Dannevirke (Taranaki DC)	1.0
Oakura (New Plymouth DC)	4.44

Broadband

Labour has a regulatory environment highly conducive to the roll out of super fast broadband. Now more must be done to roll that out across New Zealand.

The core part of our investment package is the Broadband Investment Fund. We have made available \$250m for urban projects, \$75m for rural, and \$15m for international connections, as well as \$160m+ for connectivity in health and education and around \$10m for other new Digital Strategy initiatives.

There has been a very positive response to the initial round of applications for the broadband funding announced in Budget 2008. At that time, we advised that no more than 40 per cent of the appropriated funds would be available for use in the first year.

If regions in need of some additional economic stimulus have acceptable proposals, however, Labour will bring forward more of the funding into the first year.

Sustainability Initiatives

Addressing soil erosion

There are many areas of land significantly affected, or potentially affected, by mass movement erosion especially in the lower North Island. The reintroduction of vegetation to these lands through afforestation or managing natural regeneration can provide much improved stability. This programme would also provide employment opportunities.

Geographically the most acute land areas are concentrated within the boundaries of Gisborne District Council, the Hawke's Bay Regional Council, Greater Wellington Regional Council, Horizons Manawatu, and the Taranaki Regional Council.

The Northland Regional Council, Auckland Regional Council, Environment Waikato, and Environment Bay Councils also have significant areas of affected land.

The government has three programmes in place which already provide direct funding support as an incentive for afforestation activity which targets eroding and erosion prone land:

- the East Coast Forestry Project – this well established programme targets affected land within the boundaries of the Gisborne District Council.
- the Sustainable Land Management (Hill Country Erosion) programme, introduced in 2007, provides \$2 million a year to accelerate activity by regional councils.

- the Afforestation Grants Scheme, introduced with the Sustainable Land Management and Climate Change Plan of Action, is designed to ensure that avoiding further hill country erosion is a consideration.

This framework supports the objective of achieving slope stability and reducing erosion. Programmes consistent with it can be boosted by the provision of further funds.

Insulating houses and improving energy efficiency in our homes

This programme is relatively labour-intensive and people can be trained for the work in a relatively short time period. This makes the work ideal for generating work around the country. Improving the energy efficiency of our housing stock also contributes to the sustainability of our nation overall. It not only reduces demand for energy, but also it improves health outcomes.

Labour will bring forward access to the \$1 billion home energy efficiency fund so that schemes for retrofitting older houses can be expanded in those areas where unemployment is emerging.

Stimulating the Building Sector

Traditionally, one of the first sectors to feel the effects of an economic downturn is the building industry. Already we are seeing the signs of decreased activity in the sector.

Bringing forward school property upgrades

At the last budget \$14.072 million was set aside to address space deficiencies in 29 schools. There are other schools around the country which would benefit from additional or upgraded space. It is estimated that up to \$185 million of work could be considered.

In this years budget \$20 million was made available to fund replacement buildings in twenty schools. There is still a number of schools in the queue for such buildings, and, if spare construction capacity is available, work could be brought forward. This could provide replacement buildings for schools as below.

Schools funded 2008	Value (\$000)
Avondale College	2,200
Kaitangata School	205
Crownthorpe School	479

Potential extra schools	Value (\$000)
Cambridge High School	856
Sommerfield School	289
Pt Chevalier School	1,480

Arthur Miller School	449
Southbrook School	467
Fairlie School	465
Putere School	563
Omokoroa School	456
Linwood North School	1,857
Naenae Intermediate	864
Kilbirnie School	934
Waitoki School	523
St Albans School	1,625
Lincoln Primary School	999
Twyford School	508
Kaipara College	3,361
Napier Intermediate	3,280
Westburn School	463

Christchurch South School	2,453
Lyttleton Main School	2,300
Manurewa East School	1,539
Karanui School	2,199
Taupo-Nui-A-Tia College	2,848
Epsom Girls Grammar	3,553
Glen Eden Intermediate	2,433
Green Bay Primary School	2,680
Papatoetoe High School	3,984

Creating demand for affordable housing

Labours Home Ownership on the Public Estate (HOPE) initiative will allow families to build homes designed to be affordable. It will create demand for housing which might not occur otherwise. HOPE will be rolled out in Auckland in the first instance, but can also spread to other high cost housing areas.

Labour will support home ownership of new houses built on Crown-owned land by introducing the HOPE (Home Ownership on the Public Estate) programme, where the government holds the equity in the land and the family owns the home built on it.

Bringing forward state house construction and retrofitting

While the building industry is experiencing a slowdown, there is potential to boost the number of state houses planned for construction, and bring forward redevelopments already planned on Housing New Zealand property.

Housing New Zealand is also working to insulate all state houses, currently within a five year timeframe. There is also a significant modernisation and maintenance programme involved in ensuring that all state house tenants are living in decent accommodation. These are job-rich areas of work, with the potential to pick up ‘slack’ in demand experienced by the building and construction sector.

Labour is prepared to **bring forward the current spending programme** on home retrofitting, upgrading the State Housing stock, and planned development on Housing New Zealand land.

Legislating for New Allowances

A skilled workforce is a major driver of economic growth and innovation. A skilled workforce lifts productivity, improves New Zealand's global competitiveness and helps our industries. Skills, knowledge, innovation, and creativity are becoming the main drivers of our country's competitive advantage.

In times of economic adjustment, it is essential that workers are supported to gain new skills which will enhance their job opportunities.

Job Search Allowance

In many cases when a worker becomes redundant, this removes the family's only source of income. In situations like this, social security assistance is already available.

In other cases, there is another earner in the family. Even so, the implications of sudden job loss can be hugely stressful and disruptive. This can be particularly the case for families who had been well-established in the workforce with an expectation of ongoing income and with expenditure patterns determined by children, housing costs, credit repayments or other factors.

Labour's new policy provides additional transitional assistance to support workers get back into paid employment, identify an appropriate retraining course, or adjust their circumstances.

Labour will introduce legislation to implement a **Job Search Allowance** for up to thirteen weeks for people who have been made redundant after at least five years in the workforce. This allowance is available to workers in two earner families where one is made redundant from work. Under existing social security provision this family would have received no support

Retraining Allowance

In the modern world, skills are increasingly important, both for individuals and for the economy as a whole. Careers are also becoming more complex with people more likely to

change jobs and even occupations several times over the course of their working life. These changes will often require a period of retraining.

Labour will introduce legislation to implement a new **retraining allowance**, on the same basis as a student allowance, but with no spousal income test, for workers who have been in the **workforce for at least five years and have been made redundant**.

Labour will also introduce legislation to implement a retraining allowance available to those who have been in the **workforce for ten years and wish to upgrade their skills or retrain in a new area**.

Legislating for Changes to Provisional Tax

Small and medium sized firms can potentially suffer cash flow problems during a downturn which may be exacerbated by the rules governing provisional tax. Labour will therefore introduce temporary measures to provide more flexibility.

Labour will, for the period from 15 January 2009 to May 2010, **reduce the use of money interest rate for underpayments of provisional tax** to the same level as that paid for the overpayment of provisional tax.

The Commissioner of Inland Revenue will have the discretion to increase the use of money interest rate back to the normal level if he is satisfied that there has been a deliberate attempt to underpay tax.

Note: current use-of-money interest rates are 14.24% for underpayments and 6.66% on overpayments.