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TAKING THE INITIATIVE IN A TIME OF CRISIS

ESRA researcher Shannon Walsh takes a moment to reflect on how another think-tank, the New Zealand Initiative, has chosen to respond to the current crisis.

As we are all now acutely aware, things move fast in a crisis. Governments around the world are currently writing policy by the seat of their pants. As a social scientist, it is hard not to watch on with a mix of fascination, uncertainty, and a good dose of frustration. ESRA researcher Ben Rosamond has already produced an excellent initial response to the government's Covid-19 recovery package.¹ Here I want to look at how another think tank, the New Zealand Initiative, has chosen to respond to the crisis, and to offer a response that, though my own, is respectful of ESRA's kaupapa and purpose.²

If governments are writing at speed, so too are the New Zealand Initiative. Over the the last two weeks they have released three research papers and a set of recommendations for select committee procedures. In comparison with its regular output of one or two reports per month this represents a significant step up in productivity. In moments like this, public debate around policy is important because it helps the government coordinate an effective response and

it helps the public hold them to account. Sadly, the voices of those worst hit by a crisis are often crowded out by better resourced interest groups.

The New Zealand Initiative describes itself as a 'strictly non-partisan' think-tank that is dedicated 'to help create a competitive, open and dynamic economy and a free, prosperous, fair, and cohesive society'.³ I must admit, I have often looked upon the New Zealand Initiative with envy. They have a research capacity that ESRA could only dream of. They employ a staff of 16, whereas ESRA runs almost completely on the volunteer labour of our collective and on a small number of vitally important contributions from community groups and concerned citizens.

The Initiative run on the support of a 'membership' platform that attracts a suite of major players from across Aotearoa New Zealand's business scene. Being 'strictly non-partisan', the Initiative certainly does not discriminate when it comes to funding, with major banks, manufacturing companies,

multinational tobacco companies, and Google listed among their many supporters.⁴ The Initiative admit that they ‘are a business-backed research organisation’, yet ‘not a lobby group’.⁵ They are not a lobby group because they support business as such, bringing ‘a pro-market perspective to policy debates without pushing specific industries or companies’ interests’.⁶

It is always important to watch carefully how organised business responds in a time of crisis. These are moments in which capital’s tendency toward what Joseph Schumpeter called ‘creative destruction’ moves rapidly and many of the normal rules no longer apply.⁷ This can have disastrous consequences for workers because policies designed to protect business can be, and have been, rushed through in desperate bids to save ‘the economy’.

In this intervention, I critically analyse three New Zealand Initiative research reports, each of which is focused on the economic impacts of Covid-19.⁸ While these reports outline many common-sense areas where a swift and effective government response is needed, the crucial question is what happens after the immediate crisis and how the government responds with policy designed to weather its mid-to-long term effects.

REPORT 1: STAY ON TARGET

In this report researchers at the New Zealand Initiative fix their sights on renewed calls for a Universal Basic Income (UBI) as a possible short-term response to the crisis, and more generally as a possible buffer to other shocks in the future.⁹ They admit that a short-term UBI ‘has some advantages’ and could be ‘a cost worth bearing’.¹⁰ Among the advantages are the ability of a UBI to

‘help protect anyone who has fallen through the cracks of other systems’.¹¹ This, no doubt, will become a more pressing issue as the lockdown progresses and the stories of those who have fallen through the cracks continue to emerge.

The report dismisses a UBI, however, because it ‘does less good for those in the most need than targeted assistance’.¹² Authors Eric Crampton and David Law go on to argue that this inadequacy ‘would result in layering the contemporary benefit system on top of a UBI – cancelling out the key benefits of a UBI’.¹³ This set of claims remains unexplained, as does their interpretation of what a UBI might entail. A UBI, they claim, could not provide enough to support the worst off ‘without creating crippling tax levels’.¹⁴ Presumably, they have in mind the claimed evils of a progressive taxation system in which there are higher tax levels for those on higher incomes. They do note that the richest might not even benefit, noting that ‘those with higher earnings would see a third of their UBI income clawed back through standard income taxes this year’.¹⁵ They have a point here. The point is that a UBI that merely redistributed wealth upwards would be an abject failure.

A UBI is only a viable option if it is accompanied by major tax reform involving strong progressive taxation and stronger corporate tax schemes as well as other reforms such as rent controls, increased protections for renters, increased protections for low-paid and precarious workers, wage controls on higher earners (i.e. setting a maximum income), and no doubt other adjustments required to make the shift to UBI as equitable as possible. It is around the question of taxation and tax reform that many of the important debates concerning UBI are, and will be, played out. However, Crampton and Law

refrain from entering into such detail, no doubt due in part to the brevity of their report.

The authors argue that the current government response to the crisis has not done enough to prevent lay-offs and firm closures. They quite correctly see the protection of firms as a necessary immediate step to ensure that workers keep getting paid. Crampton and Law also see this as a means to help firms ‘bounce back quickly’ after the crisis. Toward this end, they recommend a series of policy responses designed to reduce labour costs for firms by having the government foot part of the bill. The centrepiece of these recommendations is the ‘short-term work’ scheme (STW), based on a model used in Germany in the aftermath of the Global Financial Crisis. This is the focus of the third report, which I return to below.

We are dealing here with a unique situation, but it is interesting to consider this disposition of protecting firms in the context of a discussion of a UBI. Many proponents of the UBI support it because it contributes to a more dynamic business environment. Take, for example, the work of the Productivity Commission, another important pro-business think tank also based in Wellington, who have been conducting research into ‘Technological change, disruption and the future of work’.¹⁶ In the first of the five reports already released, the Productivity Commission recommend a shift in thinking away from ‘job security’ toward ‘income security’ as the best way forward in a highly competitive and rapidly changing global business environment.¹⁷

While the Productivity Commission stops short of recommending a UBI, they take a very different position to that of the New Zealand Initiative, which argues for protecting firms.

According to the Productivity Commission, ‘protectionist policies’, such as the ones that the New Zealand Initiative researchers seem to be recommending, will only delay the ‘adjustment costs’ associated with changes to the business environment. Better to let businesses fail, argue the Productivity Commission, than to artificially prop them up. Granted, the Productivity Commission are talking about firms and sectors that have failed to keep up with global productivity levels, not those affected by the sudden and radical change to the business environment represented by the current crisis, but it is worth pausing to consider what its position reveals.

A UBI seems an attractive option to many economists because it provides the base upon which a dynamic and flexible labour market can be built. Implementing policies that allow firms to hire and fire as freely as possible is something normally supported by business, and something that has been widely supported as best practice in economic policy circles since at least the dawn of the neoliberal era. This is why the Productivity Commission emphasises moving from job security to income security. A UBI would provide a base level of income that, in theory at least, would be enough for everyone to live on were they out of work, or should they choose for whatever reason not to work. By radically simplifying the welfare system, a UBI would also reduce administrative costs. And if it was done correctly, longer-term community health benefits would presumably reduce the burden that widespread poverty places upon public services. The ‘if it was done correctly’ part is important here because, as was pointed out above, implementation of a UBI would require a system-wide adjustment at a level not seen in this country since at least the reforms initiated

by the fourth Labour government in 1984. Those reforms, it should be noted, were also introduced under the pretext of economic crisis.

Making sure that firms do not fold is an effective policy to soften some of the immediate economic impacts of the crisis. The way different groups experience these impacts, however, differs widely. For those who are able to work remotely, or who do not need to work at all, the immediate impact might be a novel ‘staycation’, as Crampton and Law put it.¹⁸ The economic impacts these individuals feel will largely depend on what happens within the industries they work in, and on their capacity to adapt to a new economic situation. For some this will be more immediate while for others the real adjustments will come later as the medium-term effects of the crisis begin to be felt. Some of the wealthiest members of society will hardly be impacted, and some will in fact make money from this.¹⁹ Regardless, it is far too early to speculate on how the longer-term situation will play out.

For some people the impact has already been devastating. Many have lost their jobs and are now struggling to get support. The government’s wage subsidy was an attempt to keep some individuals out of Work and Income New Zealand (WINZ) by tapping into the organisational resources of existing employment relations. It is essentially a payroll issue. Because employees are already on the payroll, firms are able to administer the subsidy swiftly. This is hardly a policy designed to ‘save business’.

If a UBI were in place, then the government would already be in a payroll-type relationship with every citizen. Rapidly developing a response that puts money where it is needed would be much simpler and would not rely on the

administration of private firms, which has no doubt already caused hold-ups in getting subsidy money into the pockets of some workers. In this sense, I can only agree with the Initiative’s emphasis on protecting firms. Yet, as ESRA concluded in a recent analysis of financial responses to the crisis: ‘while such interventions are for the moment wholly necessary, they ultimately serve to sustain a deeply dysfunctional system’.²⁰

A UBI will not solve this crisis, and a poorly conceived one, rolled out quickly, is likely to be ineffective. The government is better to focus on significantly enabling and streamlining services already in place, continuing wage subsidies targeting those hit worst by the crisis, extending benefit eligibility, removing all barriers to benefit access, individualising benefits so those with partners in employment are not disadvantaged, and increasing baseline benefits to a liveable level, which would involve increases far beyond the paltry \$25 per week increase offered in the first package.²¹ These steps should be taken immediately. Beyond this, the UBI could prove useful in the mid-to-long term aftermath of the crisis—that is, if it was done correctly.

REPORT 2: EFFECTIVE TREATMENT

The longest of the three reports released by the New Zealand Initiative, entitled ‘Effective Treatment: Public Policy Prescription for a Pandemic’ offers a somewhat more nuanced view compared with the above (much shorter) report’s strong emphasis on protecting firms.²² Here the authors, Eric Crampton and Leonard Hong, recognise that the ‘physical assets of failed firms do not disappear’, and that ‘if the crisis is very long, it may be best that otherwise-viable businesses fail so their human and

material resources can turn to more important areas during the crisis'.²³ This is an orthodox stance on economic adjustment, such as the one presented in the Productivity Commission report mentioned above, and their emphasis on protecting firm closures 'due solely to credit limitations' reflects the centrality of finance to understanding the crisis, as has been outlined in research published by ESRA.²⁴

What the Initiative's three reports fail to recognise is the extent to which the current crisis is exacerbated by our near complete social reliance on the capitalist firm as the key unit of organisation within the economy. The wage subsidy was only an appropriate response because the wage is the main mechanism through which a portion—roughly half—of the value generated by economic activity is distributed to workers.²⁵ But an economy is much more than a collection of firms.

A major focus of this larger report is on understanding the need for industry and workers to adjust as pressure is put on 'essential' parts of the economy. In particular, the authors recommend that the government encourage and facilitate the effective response of particular industries to the demand this generates—for example, by coordinating with accommodation suppliers that have the space to support isolation efforts, or with manufactures that can shift to the production of essential medical supplies such as ventilators.

One discussion that has begun to unfold in public debate is around the question of what, exactly, is 'essential' to an economy. This is likely to continue and to become increasingly complex. The report notes this and urges the government to act swiftly in determining what is

essential. Determining what is 'essential' to an economy is difficult, though, because of the deep interconnectedness of modern economies and the invisibility of much of the work that allows capitalist economies to function.²⁶ The wage relation has the effect of masking a lot of what is essential to the economy because the day-to-day work of social reproduction is not registered as an official aspect of 'the economy'.

This is also a question that will be difficult to answer because capitalism is a market system based on exchange. Under capitalism decisions between what production is essential or inessential are largely made by the market, or, to be more precise, by the ongoing interplay of forces of those who own commodities and those who own money. Any interventions within the capitalist economy around what is essential must be exogenous to capital, which is to say they must come from somewhere else than capitalist forms of organisation. For example, political efforts are constantly required to encourage or force capitalists to make decisions that are good for the community. We are certainly lucky that in this country a history of anti-colonial struggle, socialism, trade-unionism, and other non-capitalist forms of organisation have successfully placed limitations on capital's worst excesses.²⁷ Without many of these limits we would be in a much worse position to respond to the crisis, as the example of the United States is currently proving.

The discussion that unfolds over what is essential will be crucial for how we move forward from this crisis because it gives us the chance to support the things that we decide are important and essential for our communities to thrive. Securing healthcare and food supply for all is, of course, essential; so too is accommodation.²⁸

If we can suddenly find shelter for our homeless population, as the Initiative suggest in this report, why have we had so much homelessness for so long in the first place? The answer, of course, is that capitalism is a system based on the production of commodities for the purpose of exchange on the market, and that those who find themselves homeless do not constitute a lucrative market compared with the tourists that these rooms would usually accommodate. Suddenly, those without a place to live become a market player when there is a political incentive to facilitate their isolation and a government that promises to foot the bill.

The Initiative researchers also call for an immediate suspension of PAYE and KiwiSaver for the 2020 tax year, deferring taxes to 2021. This could be a useful immediate step that would partially alleviate the suffering of some of those hit badly by the crisis. But this should be strictly limited to low-income earners so as not to unnecessarily disrupt much needed government tax revenue from higher earners. It would also only delay the tax burden on low-income households until the 2021 tax year, so combining this with a tax write-off for 2020 would be sensible.

Crompton and Hong often speak of ‘the post-crisis path back to normality’ in this report. What they mean by this is a return to a system of social organisation that is geared toward production for the purpose of exchange and profit, and one that indeed encourages restricting access to essentials such as housing for the purpose of profit.

REPORT 3: SHORT-TIME WORK TO MAINTAIN EMPLOYMENT

The Initiative’s ‘eventually-back-to-business-as-usual’ approach is also reflected in David Law’s note on short-time work, mentioned above.²⁹ Short-time work schemes (STW) provide wage subsidies to firms to reduce their employees’ working time rather than laying them off. They were used in Germany to combat unemployment during the GFC and are a way to preserve the employment structure of a firm through a crisis with government supporting firms to ramp down production during a recession and ramp back up again during a recovery.

The Initiative see this as a more efficient way to preserve jobs than the wage subsidy, which it argues ‘will likely flow to firms that do not need them and are an insufficient incentive for large struggling companies to continue operating due to the small size of the subsidy cap in relation to their total wage bill’. There are many different ways a STW could be implemented, all of which would mean adjustments in the scope of its cover and the size of the government bill. Much like the UBI, this policy offers a way to soften the impact of adjustment; however, it offers this in the form of job protection, rather than income protection as with the UBI.

Given our present organisational reliance on the firm to distribute socially produced value via wages, as discussed above, this is certainly a useful policy tool for the immediate situation, and it is entirely possible that we will see something like this emerge in the coming weeks. The difficulty that policy makers would face with this is in deciding which firms will be viable after the crisis, and are therefore worthy of this public support, and which firms should be allowed to

fail so that resources are reallocated effectively.

Economic orthodoxy says that under normal market conditions firms should be allowed to fail, but these are not normal market conditions. Protecting commercial lines of credit here is crucial because viable firms will fail if they are unable to raise enough capital to weather the crisis. As Crampton and Hong note, banks therefore serve a medium-term function by making decisions about which firms are worth supporting through a crisis. Of course, banks will only extend credit over this period if the government and the Reserve Bank of New Zealand provide liquidity support.³⁰ Governments are forced to operationalise these policies through banks simply because banks are better resourced to make these decisions.

For these reasons a limited STW might prove useful in addressing the immediate effects of the crisis. However, as Law rightly argues, it would be reliant on ‘good monitoring and enforcement of the rules of the scheme to ensure firms do not take advantage of subsidies to which they are not entitled’.

CONCLUSION

These immediate steps proposed by the New Zealand Initiative are necessary, but they are far from sufficient. Rather than an ‘eventually-back-to-business-as-usual’ approach, what this moment calls for are radical approaches to economic policy that secure the essential needs of our communities, and not only in the immediacy of the crisis. Such policies are what many agree we need right now to deal with the crisis. If we can implement them for good, we will be much better prepared for future shocks such as the one we are currently experiencing.

The word ‘initiative’ comes from the Latin *initiatum*, past participle of *initiare*, meaning ‘to begin’. Ours is certainly a moment for new beginnings, and therefore a moment for initiative. What we do coming out of this crisis is likely to determine the fate of our communities for many years to come. And while we are entering into a period of much uncertainty and risk, we also have an opportunity to radically reimagine our priorities as a society, something we are already doing as we come to understand the importance of essential workers.

The idea of a ‘post-crisis path back to normality’ is dangerous. If the current crisis has shown us anything, it is that the ‘normal’ is deeply flawed. Thoughtful and responsible policy at this moment should reflect this and have the courage to break thoroughly with the status quo. If this is not done, there is every chance that after this crisis we will awake, in the words of Philip Mirowski, to a ‘second nightmare more ghastly than the first’.³¹

NOTES

- 1 Ben Rosamond, 'An Initial Response to the Covid-19 Recovery Package', *Economic and Social Research Aotearoa*, 18 March 2020: <https://esra.nz/initial-response-covid-19-recovery-package/>
- 2 <https://esra.nz/about/>
- 3 <https://www.nzinitiative.org.nz/about-us/>
- 4 <https://www.nzinitiative.org.nz/membership/our-members/>
- 5 <https://www.nzinitiative.org.nz/membership/how-the-initiative-works/>
- 6 <https://www.nzinitiative.org.nz/membership/how-the-initiative-works/>
- 7 Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London: Routledge, 1943).
- 8 The one report that I do not address here recommends easing select committee process requirements for legislation and pausing unnecessary processes as a response to the crisis. See Eric Crampton, 'Time to Process', *The New Zealand Initiative*, 26 March 2020: <https://nzinitiative.org.nz/reports-and-media/reports/policy-point-time-to-proces/>
- 9 Eric Crampton and David Law, 'Stay on Target', *The New Zealand Initiative*, 27 March 2020: <https://nzinitiative.org.nz/reports-and-media/reports/policy-point-stay-on-target/>
- 10 Crampton and Law, 'Stay on Target', 1.
- 11 Crampton and Law, 'Stay on Target', 1.
- 12 Crampton and Law, 'Stay on Target', 1.
- 13 Crampton and Law, 'Stay on Target', 1.
- 14 Crampton and Law, 'Stay on Target', 1.
- 15 Crampton and Law, 'Stay on Target', 1.
- 16 New Zealand Productivity Commission, *New Zealand, Technology and Productivity, Technological Change and the Future of Work, draft report 1* (2019). My critical response to this work of the New Zealand Productivity Commission will be published in ESRA's forthcoming *Whose Futures?* collection.
- 17 New Zealand Productivity Commission, *Employment, Labour Markets and Income, Technological Change and the Future of Work, draft report 2* (2019), 1–2.
- 18 Crampton and Law, 'Stay on Target'.
- 19 See Aimee Shaw, 'Covid 19 coronavirus: How businesses are making money despite the lockdown', *New Zealand Herald*, 26 March 2020: https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12319936
- 20 Jack Foster, 'The Corona Crash', *Economic and Social Research Aotearoa*, 30 March 2020: <https://esra.nz/the-corona-crash/>
- 21 The urgency of such measures is made clear in this recent report by Eva Corlett on Radio New Zealand: <https://www.rnz.co.nz/national/programmes/morningreport/audio/2018740995/coronavirus-people-struggling-to-access-welfare-help>
- 22 Eric Crampton and Leonard Hong, 'Effective Treatment: Public Policy Prescription for a Pandemic', *The New Zealand Initiative*, 26 March 2020: <https://nzinitiative.org.nz/reports-and-media/reports/research-note-3/>

- 23 Crampton and Hong, 'Effective Treatment', 4.
- 24 Foster, 'The Corona Crash'.
- 25 For data on changes in the share of national income received by those earning wages see Bill Rosenberg, 'A Brief History of Labour's Share of Income in New Zealand 1939–2016', in *Transforming Workplace Relations in New Zealand 1976–2016*, eds., Gordon Anderson et al (Wellington: Victoria University Press, 2017).
- 26 On the devaluation of socially vital forms of work, see Campbell Jones 'The Value of Work and the Future of the Left', *Counterfutures: Left Thought and Practice Aotearoa* 4 (2017): 137–165.
- 27 See Campbell Jones and Baz MacDonald, 'Outside the Bunker: A Conversation About Capitalism, Crisis and Cruelty', *Economic and Social Research Aotearoa*, 23 May 2019: <https://esra.nz/outside-bunker-conversation-capitalism-crisis-cruelty/>
- 28 See Vanessa Cole, 'Kiwibuild Should Have Always Been Public Housing', *Economic and Social Research Aotearoa*, 30 October 2019: <https://esra.nz/kiwibuild-always-public-housing/>
- 29 David Law 'Short-term Work to Maintain Employment,' *The New Zealand Initiative*, 24 March 2020: <https://nzinitiative.org.nz/reports-and-media/reports/policy-point-short-time-work-to-maintain-employment/>
- 30 Foster, 'The Corona Crash'.
- 31 Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown* (London: Verso, 2014).