



NEW ZEALAND COUNCIL OF TRADE UNIONS

Te Kauae Kaimahi

Joint Submission by the ACTU and NZCTU
to the
**Joint scoping study by the Australian and
New Zealand Productivity Commissions**
into
**Impacts and Benefits of Further Economic
Integration of the Australian and
New Zealand Economies**

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Foreword

The Australian Council of Trade Unions (ACTU) is the peak union council in Australia. Unions affiliated to the ACTU represent around 2 million workers.

The New Zealand Council of Trade Unions Te Kauae Kaimahi (NZCTU) is the peak union council in New Zealand. Unions affiliated to NZCTU represent around 350,000 workers.

This initial submission to the joint study by the Australian and New Zealand Productivity Commissions is jointly made by NZCTU and ACTU. Both the NZCTU and the ACTU look forward to engaging with the study in consultations and public hearings, and reserve their right to put further joint and/or separate submissions to it.

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Secretary
Australian Council of Trade Unions

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Introduction

The Australian and New Zealand Councils of Trade Unions (hereafter, the CTUs) welcome this opportunity to put submissions to the joint study by the Australian and New Zealand Productivity Commissions (hereafter, the PCs) into the impacts and benefits of further economic integration between our two countries.

This initial CTU submission addresses a number of high level issues canvassed (and some not canvassed) in the PCs Issues Paper “Strengthening economic relations between Australia and New Zealand”. The submission does not attempt to provide answers to all questions and issues raised in the Paper, but outlines our interest in various areas, and signals our desire to be involved in the development of the study, particularly in the areas we touch on.

Ours are two independent sovereign nation states. The PCs are not charged with mapping a course to political or economic unification. Any recommendations from this joint study must respect our distinctive national identities and be premised on a continuation of national policy autonomy.

Clearly however, the ditch that divides our nations is not a gulf. The economic, historical and cultural bridges that unite us across the Tasman are many and strong.

The CTUs share the commitment of our two national governments as expressed in the Terms of Reference for this study, to strong economic relations between our countries. We accept (with some reservations) the affirmation of the two Prime Ministers that close economic relations have been ‘highly beneficial to both countries’¹.

That Prime Ministerial affirmation is the foundation premise for this joint study. On this premise the joint PC study has been commissioned to report to our political leaders.

In order ‘to promote further reform and economic integration’ the PCs are charged with identifying options that would ‘enhance increased economic integration and improve economic outcomes’². The PCs’ joint task is to provide advice on the next steps in economic integration; to identify specific areas for potential reform; their likely economic benefit and which reform options carry the highest joint net benefits; how they might best be achieved; any significant transition and adjustment costs; and the time scale over which the benefits will accrue.

The question to be addressed by this joint study is not *whether* any steps should be taken, but *what* the next steps should be, and *when* they should be taken.

¹ IP ToR page 34

² IP ToR page 34

It is relevant that while overall, the process of economic integration may have been beneficial, there have been winners and losers, and there have been areas which have had greater or lesser acceptance. The integration has occurred not only as a result of the ANZCERTA and related agreements, but through a variety of cultural, social, economic and informal developments. The process, form, enforceability and content of such developments are all important aspects of what is acceptable.

Time horizon

The Issues Paper proposes to adopt a 15-20 year time horizon for the purposes of proposing directions and priorities³. We agree that this time frame is broadly appropriate for this study.

Net Benefits

The Issues Paper proposes adoption of a 'net benefits' framework, incorporating consideration of the distribution of gains and losses within and between the countries⁴.

It is our firm view that any proposed package of initiatives that benefits one country at the expense of the other is unacceptable even if the net balance is positive. We note and endorse the Issues Paper assertion that "Trans-Tasman integration measures should produce net benefits for each country"⁵.

The PCs Report must include credible and transparent analysis of the anticipated distribution of gains and losses between and within each country and the assumptions on which that analysis is based.

The net benefits test should be applied to each individual reform. Where integrated packages of reform are proposed the study should also identify the costs and benefits of the package as a whole⁶.

When considering the benefits and costs for each country, the outcomes for citizens of one country who are resident in the other should be separately identified⁷.

³ IP page 1

⁴ IP page 1, 17, 18

⁵ IP page 18

⁶ IP Q.11 page 18

⁷ IP Q.12 page 18

Methodology

The CTUs do not accept the fundamentalist view that unfettered markets deliver the best of all possible worlds (as rational individuals maximise their own ‘utility’), nor the subsidiary view that the nature of reform consists in the reduction of ‘barriers’ that impede the free functioning of market forces.

Increasing economic integration amounts to more than removal of obstacles. The ToR do not contain the word ‘barriers’ at all, but it appears prominently and frequently throughout the Issues Paper starting with questions 2, 3 and 4⁸.

The CTUs believe the Joint Study will fall short if it adopts a narrow neo-liberal view of its task. Closer economic integration is not synonymous with reduction of regulatory barriers. The Joint Study must proceed by accepting the political decision to pursue closer integration in the interests of the citizens of both countries. We support closer integration to the highest common factor, not the lowest common denominator; this entails harmonisation of regulation that each country has adopted to the benefit of the citizens and residents, not simply its removal, and it should permit each country to adopt higher standards if their citizens subsequently require it.

The Issues Paper points out that there has been no comprehensive assessment of the impact on overall community welfare⁹. The CTUs consider that ‘improved economic outcomes’ must mean improved community welfare in a broad sense and must not be construed narrowly to mean economic efficiency. Welfare considerations should include distributional issues, which have been significant impacts of trade and investment liberalisation.

We note that the Australian PC is concerned about “issues affecting the welfare of Australians”, and the New Zealand PC has the aim of “providing independent, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders”. The existence of practical difficulties in quantifying the impact of formal agreements on welfare is no reason to limit analyses to the impact on merchandise trade¹⁰.

As a matter of methodology and theory, the data provided in the Issues Paper suggests that the effect of increasing integration has been to encourage the outflow of people from New Zealand to Australia at least as much as to increase cross-Tasman trade and investment. This raises economic geography issues about the magnet effects of large conglomerations of population – which may be more important than conventional trade or investment. The paper mentions

⁸ ‘Barriers’ appears 26 times, and ‘impediments’ X times

⁹ IP page 8

¹⁰ IP Box 4 pages 9, 10

“hollowing out” of the New Zealand economy¹¹, a position which we believe should be treated with the utmost seriousness. A conventional trade analysis of any proposals will be inadequate in anticipating the longer term and wider effects of increasing integration.

Scope

Today’s close relations between Australia and New Zealand do not derive from the signing of formal trade agreements between the two countries¹². Our affinity derives from more than two hundred years of geo-political history, much of it as British colonies ‘down under’; forged in shared endeavour in numerous conflicts; and in sporting rivalry.

The two countries had substantial trade links long before the first formal agreement was signed in 1922. The progressive development over many years of bilateral (trade and other) agreements is best seen as a product of that affinity, and a nurturing of it.

How far integration should ultimately go is a matter for political decision; the ‘end-point’ to trans-Tasman integration is not something that can or should be determined on the basis of economic considerations alone.

The CTUs agree that current trans-Tasman arrangements embody elements of a common market¹³. Within this common market frame, numerous areas of ‘harmonisation’ including mutual recognition of standards and qualifications remain outstanding. There are often sound reasons for this, and concrete steps to greater harmonisation should be taken incrementally and with care in order to ensure against inadvertent collateral damage.

For example:

- Either country may have specific requirements in qualifications which are specific to their cultural, social or geographic context, reflecting needs in their society. These could cover a broad range of sensitive considerations as diverse as providing tangible recognition to different cultural groups present in a country, and the competencies expected of engineers in an earthquake or drought prone country. Harmonisation should not undermine that by insisting that citizens from the other country can practice without acquiring those competencies.

¹¹ IP page 24, and also the work of McCann, cited on p.17..

¹² Cf IP section 2, pages 3 - 14

¹³ IP page 19 and Fig 5

- Many health and safety standards incorporate an element of judgement over acceptable risk that may differ between societies. In some areas (genetically modified organisms is an example) the two countries may have taken different approaches which have strong support from their respective populations. These views can and do change over time. Harmonisation of regulations in areas such as food safety and labelling should be flexible enough to adapt to these different and changing attitudes, and the progressive need to improve safety and quality. In some areas, it should be accepted that harmonisation is not practicable.
- Both countries are active in negotiating wide-ranging commerce agreements with third countries. For example New Zealand, and not Australia, has a free trade and investment agreement with China; Australia and not New Zealand has one with the US. In all such treaties, agreement may be reached to adopt certain measures as part of a package which the New Zealand or Australia government of the time considers provides net benefits to the country. Any harmonisation arrangements between the two countries should not require one to adopt future measures committed to by the other with a third country. For example, harmonisation of intellectual property rules¹⁴ (as suggested on p.31 of the Issues Paper) or the various requirements around PBS in Australia and Pharmac in New Zealand prior to the signing of the Australia-US FTA could have required New Zealand to adopt the concessions Australia made to the US in those areas, but without any of the quid pro quo that the Australian government asserted it obtained in exchange for the concessions.

The complications for international agreements the two countries negotiate in future should be a consideration for the Study¹⁵. Both Australia and NZ have signed and continue to negotiate a number of preferential trade agreements. Often these agreements include clauses that apply the most favoured nation principle. This allows liberalisation negotiated in one agreement to extend to other countries that Australia and NZ have already negotiated agreements with. The CTUs consider it essential that greater economic ties between Australia through the CER are not automatically extended to other trading partners. This is because the economic relationship between Australia and NZ reflects our two countries unique relationship and close history

¹⁴ IP page 31.

¹⁵ See also Q.34 p.32.

There are numerous other questions to be considered. To what extent will each country have remaining degrees of freedom in negotiating such agreements as integration between them increases? What are the implications for different arrangements for dispute settlement in two parts of an integrated economy? For example, Australia has set a firm policy against accepting Investor-State Dispute Settlement (ISDS) in its future international agreements while New Zealand has not. If a regulatory setting common to the two countries gives rise to an investment dispute and ISDS is available only against New Zealand, will New Zealand become the “soft underbelly” for investor actions which in fact are as much against Australia as they are against New Zealand?

That said, the CTUs consider that a cautious approach to extending and deepening the trans-Tasman common market is worthwhile and capable of generating welfare enhancement in both countries if accompanied by openness and public consultation on proposals from an early stage.

We recall that at the outset of CER in the early 1980’s, New Zealand officials negotiating the agreement had a political purpose in mind, which was to introduce the radical and highly controversial (and we would say frequently destructive) economic changes that ultimately were set loose in New Zealand in 1984¹⁶. That should not be repeated if any changes are to gain broad support.

The CTUs consider that any decision to take integration beyond common market parameters requires extensive community engagement and debate. As a matter of good process, negotiations between two already closely integrated countries should be conducted with considerably more transparency than has been the practice in other international negotiations. Proposed agreements should be developed and debated in a similar way to domestic legislation, with text being made available at early stages, and certainly well before agreement is concluded.

Missing from the Issues Paper discussion on ‘next step’ matters to be addressed in any move towards Economic Union is any mention of the social protection floor including minimum wages, conditions of employment, and standards of social security provision, health services, and education. Wages and the social wage matter a great deal. These are inextricably the other side of ‘common fiscal policy’ and harmonised tax rates just as common currency and common monetary policy are two sides of the same coin. This profound shortcoming of the Issues Paper makes its discussion of labour movements superficial and banal. Its mention of labour standards is one-sided and offensive when it is limited to phrases such as “labour market rigidities” (p.23)

¹⁶ See for example “New Zealand’s Trade Policy Odyssey: Ottawa, via Marrakech and on”, by Chris Nixon and John Yeabsley, NZIER, 2002, pp.143-144; and “Export Diversification”, speech by New Zealand Minister of Trade Negotiations, Tim Groser, 4 October 2011.

or “variations and impediments to efficiency in employment laws and workplace standards such as occupational health and safety” (p.30).

Rights at work including minimum wages and conditions of employment (MWC) are a fundamental regulatory measure in both countries. MWC regulation promotes genuine productivity growth and insures against ‘race to the bottom’ competition and forum shopping¹⁷. Harmonisation delivers social benefits if it is done to the highest common factor not the lowest common denominator; it makes sense for MWC integration to be done in stages and phased in over time. Consideration of anything approaching a Single Economic Market (SEM) is fundamentally flawed if integration of MWC and standards of social services is not countenanced, especially in light of the Issues Paper assertion that “*Prices for goods, services and factors of production will tend to converge in two countries that are highly integrated as the costs of exchange (or ‘transaction costs’) are lowered.*”¹⁸

In addition, if the sense of ‘one labour market’ is to be advanced, there are issues of co-investment in skills and education that will raise major discussions due to fiscal consequences, and further harmonisation and mutual recognition of qualifications.

The ‘workplace’ should be fundamental to the deliberations of the PCs as we believe that 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. We would welcome therefore a focus on productivity provided that the productivity lens included a wide range of issues including capital per worker, the role of institutions, fairness, returns to workers, and how governments can establish an economic development environment that promotes an integrated strategy across industry and regions.

Any competition should be based on a level playing field of social and labour market institutions as previously described, so that it is not competition to force down the social wage. Differences in productivity and living standards will inevitably exist within the region, but the more governments cede domestic regulatory powers to liberalisation and harmonisation, the more important fiscal, labour market and social service underpinnings become. For a state like Tasmania there is some compensation in fiscal transfers and a range of federal employment laws and institutions and social services that prevent those areas becoming the source of competition. For New Zealand, in the Australasian context, there is not.

¹⁷ IP page 7 box 3

¹⁸ IP page 15

The fate of Greece and other struggling economies in the Euro area should be sufficient reason to discard any proposal for a common currency unless the two countries are proposing full fiscal integration¹⁹. Fiscal integration goes to the heart of democratic government and should not be discussed without at the same time considering full political union. We believe that all of these steps are going much too far for the populations and economies of the two countries, certainly within the timeframe adopted for this study.

However, the independence of our currencies will be deeply affected by the degree of integration of financial services and investment, which the paper suggests should increase. We should not stumble into a de facto situation of tied currencies and loss of monetary independence (*per force* for the smaller economy, New Zealand) without addressing the consequences outlined in the previous paragraph.

Deeper integration in other ways may bring pressures towards common government expenditure commitments which also raise questions of fiscal integration and its political consequences. For example it is not clear what is meant in the paper by “more integrated government education and health services” and “integration in the higher education sector, government-owned research institutes and science policy agencies”²⁰. While the CTUs are interested in discussing these areas as part of a common social protection floor, we would strenuously object if it were a Trojan horse for privatisation or commercialisation of public services. We would also be greatly concerned if it implied the loss of nation state control of public services. Joint regulation and joint provision of services raise not only practical, social and economic issues but important constitutional ones as well.

Without advancing specific comment at this point, we are also interested in a wide range of areas not mentioned above including but not limited to services in general, banking regulation, investment and capital flows, shipping, movement of people, greenhouse gas emissions trading, rules of origin, taxation of profits, and integration of government functions and services.

¹⁹ IP page 20 and Qs.14-16.

²⁰ IP page 25, page 31.

Oversight

The Trans Tasman Outcomes Implementation Group is too narrowly constituted to oversight changes affecting the welfare of citizens of both countries²¹. Measures directed to securing further economic integration carry implications for citizens as workers; an oversight body concerned only with the interests of business, investors, and citizens as consumers is deficient and defective.

We call for establishment of a broadly representative oversight body in which unions and non-government organisations are recognised with a place at the table.

²¹ IP page 6 and Q. 37 page 33