Emergency Measures: Eight Economic Responses to COVID-19 in New Zealand

Introduction

COVID-19 is likely the most serious risk to the welfare of New Zealanders since the Second World War. If we fail to manage the outbreak and ensuing economic damage, the impact will be catastrophic. This document sets out some basic steps for managing the economic fallout in the short term.

A market-led approach in these times would be an extraordinary mistake. The extremely tight timeframe, matched with significant information deficiencies on the part of consumers and firms, plus massive externalities of individual behaviour all characterise market failure.

As fiscal conservatives it does not come naturally to call for a dramatic expansion of the size of state spending. But a core of role of Government, and why we pay taxes, is to protect the citizenry at times of national systematic shock such as war or pandemic.

One of the reasons the Taxpayers' Union exists is to ensure money is not wasted during the good times, so there is scope for Government action on a rainy day. The darks clouds have arrived.

The cost of the following response, or anything like it, will be substantial. Our ability to meet these costs is a product of the bi-partisan approach to prudent debt management ever since the economic reforms of the 1980s and early 1990s. With some of the lowest levels of public debt in the developed world, New Zealand can now design and implement a comprehensive economic approach which limits COVID-19's impact on our health and livelihoods.

While it is the right thing to do to go into deficit and borrow money to insulate families and businesses from the economic impact of COVID-19, we also need to eventually get back into surplus again in the future, so that our debt levels remain at a level where we can withstand external shocks such as this.

For this reason extra spending should not be permanent, but for the duration of this crisis. Any changes to tax rates, benefit levels or welfare assistance should be temporary. Similarly, the quality of spending in the months and years ahead, will become even more important. But that is not the purpose of this paper.

This paper is prepared as the Government finalises its first package of economic relief. It contains both broad economic relief and targeted micro-economic measures. We do not propose targeted relief for specific sectors as it has become clear that the impact of COVID-19 will not be limited to certain sectors as markets thought only a few weeks ago.

A paper by the New Zealand Taxpayers' Union Incorporated, released on 16 March 2020.
www.taxpayers.org.nz

Recommendations

1. Provide one month of sick leave additional to existing rights for the rest of 2020, paid for by the taxpayer

A large number of New Zealanders will likely become unwell as a result of COVID-19. Eliminating the economic motivation to work while unwell is essential to limiting the spread of the disease such that our medical system will be able to cope. Likewise, it is prudent to minimise any financial incentive on employers to ask their employees to take risks and come to work.

Requiring firms to meet the cost of extended periods of sick leave is simply unrealistic. Balance sheets are already likely to come under significant strain in absence of additional obligations.

An initial cost estimate is $5.4 billion[1].

2. Use buyouts, not bailouts. Taxpayer funds paid to companies must be in return for the Crown taking a significant/majority or total shareholding.

A variety of firms will go bust in the coming 12 months. The Government will inevitably seek to support some firms and sectors that for which continued operation is of strategic importance, Air New Zealand and major airports being obvious examples. Support should be limited to a handful of strategically important firms, rather than an excuse to nationalise large swathes of the economy.

While there is justification to ensure some major companies continue, shareholders should not be insulated. The Government should only propose terms for bailouts which give the Crown a significant (majority or total) shareholding in these firms. The funds are for the continued operation (i.e. jobs and services) of these companies, not to protect the existing shareholders.

Shareholders should bear the consequences of their risk taking, even where they cannot reasonably be blamed for the outbreak of the pandemic so as not to encourage moral hazard in industries with thin margins. Secondly, these firms will eventually become profitable again so taking a stake in these companies (while financial markets seek to limit risk exposure and raise cash) is an opportunity to insulate taxpayers from the worst fiscal outcomes of the crisis, assuming that these stakes will be sold again in the future.[2]

Of course, these bailouts must come with a commitment to sell out of shareholdings once economic conditions allow.

3. Scrap the 2020 increase to the minimum wage – but if the Government insists on going ahead, have it meet the costs to employers for the next 18 months.

As of last week, the Government committed to continue with its scheduled increase in the minimum wage. Clearly a large number of businesses will be unable to meet this cost, which will increase the number of people made unemployed, businesses going under, or both. This will be particularly damaging for service sectors who disproportionately rely on low-income staff who are likely to be hit particularly hard by impending social distancing expectations.

However, low-income households are likely to be hit particularly hard by any economic difficulties (due to low levels of savings and possibly increased cost pressures) so efforts to boost incomes could be desirable. Having the Government meet the cost of increasing the minimum wage for the coming 18 months would ensure workers receive an increase in pay while insulating firms from the additional cost pressures.

Finally – low income households tend to spend a greater proportion of any marginal income, so boosting their income is likely to have a disproportionately large stimulative effect.

4. Fund unlimited childcare for health workers, aged care workers, and Police staff for the next 18 months.

There is a substantial risk that schools will be closed in the coming months, as has happened overseas. Education and childcare is likely to be disrupted indefinitely. However, it is essential that medical (including aged care) and law enforcement systems are fully staffed to handle likely impacts of a pandemic. Ensuring children get adequate care, even if one-to-one, maximises the ability of medical professionals and Police to attend work could help to limit the impact.

---

[1] Assume 50% of all those employed (total employment is 2.6658 million people) use four weeks of sick leave at June 2019 weekly median income of $1016 per week.

[2] We note the United State's "TARP" (Troubled Asset Relief Program) pulled a profit from purchasing stakes in banks and auto manufacturers in the wake of the GFC.

5. Partner with Progressives, Foodstuffs and Uber to make grocery delivery free.

It will likely become essential that people stay home and avoid public places as much as possible in the coming months. However clearly families will still need access to basic groceries (and cold and flu medication if they become unwell or are afflicted with another cold or flu as winter sets in).

Funding grocery deliveries could encourage people to stay at home and avoid supermarkets – which could easily become vectors for transmission as households become wary and panic buy.

Clearly the grocery duopoly would need to ensure staff meet health and safety requirements. Temperatures could be taken on arrival to work, when they leave with trucks or vans of goods, masks would be required, and gloves would need to be worn by all staff. Additionally, product could be left by people's doors at arranged time windows to limit risk to staff from those receiving the goods.

Large increases in delivery staff could be met by taking on those already licensed to drive with Uber or other similar apps, who are likely to suffer from reduced work in the coming months. More formally, the Government should choose to encourage a partnership between the grocery duopoly and Uber.

6. Give lump-sum payments by retrospectively cutting the bottom tax rate from 10.5% to 5% for the 2019/2020 tax year.

The bottom income tax rate applies up to $14,000 of income, so cutting the bottom rate to 5% would be equivalent to an additional $770 in income per year. The Government could choose to make a lump sum payment of $770 immediately with the tax cut to be applied retrospectively on filing across the 2019/20 and 2020/21 tax years.

With the recent move to automatic filing, IRD has bank account details for the majority of New Zealanders.

In this scenario, those whose income exceed $14,000 simply have their tax return treated as though they received the benefit in advance. For those whose incomes are less than $14,000 the Government could simply choose not to collect and write off any negative balance owing.

The one-off cost for this measure (not factoring in increased GST revenue) is $2.14 billion.

7. Expand "Winter Energy Payments" to begin immediately and continue for the next 12 months.

The Winter Energy Payment is an extra payment to help with the cost of heating people's home over the winter month. Those eligible for the payments do not need to apply, and are those getting:

- NZ Superannuation
- Veteran's Pension
- Jobseeker Support
- Jobseeker Support Student Hardship
- Sole Parent Support
- Supported Living Payment
- Young Parent Payment
- Youth Payment
- Emergency Benefit
- Emergency Maintenance Allowance

It is essential to encourage people to stay home as much as possible in the coming year, but clearly this will have an impact on those who struggle to heat their home. It would be disastrous if low income pensioners and those receiving welfare payments from the state decided to use heated public spaces like churches, community centres, and libraries because they couldn't afford to heat their own home.

The Government should simply act to remove these economic incentives by extending and potentially increasing the rate of the Winter Energy Payment.

8. Suspend interest and penalties until the end of 2020 for late tax payments from employers.

Low levels of public debt allow the Government to comfortably defer tax revenue.

This measure should only apply to those employers who have otherwise paid on time for the last year.

Conclusion

COVID-19 is likely to significantly disrupt our way of life, while having a terrible effect on the health of some of the most vulnerable New Zealanders. While the total policy response is likely to be much wider than the proposals set out above, we believe they are a good first step to reassuring the country of the Government's urgent and widespread response to the impending risk of COVID-19.