Poor Policy - but Great Politics! Pity About NZ. It’s Time for Big Changes - Are You Up For It?

A presentation by Kerry McDonald to Livestrands, Winton 8 December, 2016
My background

- **Economist** - Director NZIER; NZ  Aus, Uk, etc
- **Senior executive/MD** - Comalco, CRA, Rio Tinto ; Aus, NZ, Canada, Japan, USA, Brunei, Venezuela, etc
- **Company director** - BNZ, NAB, Leightons, Carter Holt Harvey, OceanaGold, Ports of Auckland, Comalco, etc
Global context

• The Global Financial Crisis - caused by deeply incompetent US leadership, policy and regulation; and greed.
• It’s impact continues.
• The Global economy is in uncharted waters, struggling and fragile.
New Zealand: Overview

• Poor policy and leadership.
• No strategy, just politics.

• Great for getting re-elected - Clark & Key 6 terms!

• Pity about NZ!

• **My comments:**
  • Current situation in more detail.
  • Future options, especially for exporters!
NZ policy

• Policy: a powerful tool for achieving important objectives – higher living standards, environmental protection, etc.

• But our democratic processes are corrupted by a dominant focus on re-election - not national benefit.

• Smoke, mirrors and obfuscation.
• GDP Headlined - Rock Star economy?
• Six term Clark/Key governments - hey man, this stuff really works!

• But it’s productivity and GDP/capita that matters!
NZ policy

• So - living standards slide
• Used to be top 2 - 4 in OECD

• Now mid-20s and below OECD average income!
• Fourth lowest in productivity!

• And serious problems are ignored: productivity, immigration, housing, exports, low skills/low incomes, child poverty, obesity, environment, tourism, infrastructure, population/labour market policies, etc.

• We need to drain the swamp!
NZ policy

• No policy strategy – piecemeal, fragmented, ad hoc.
• Reactive – **Bottom the Cliff**, repairing the damage of past neglect and failures; applying band aids - more subsidies, not more economic wealth.
• Shifting the deck chairs - ignoring the real problems

• **Should be working at the Top of the Cliff** - proactive, targeted, forward-looking, *increasing economic value* - it’s what makes a difference.

• So - NZ Super plus Welfare spending was $12bn in 2000 and $22bn now!
NZ policy - examples

- **Working for Families** - spend more on welfare subsidies (band aids) rather than increasing national wealth and incomes. Shifting the deck chairs!
- **Immigration** – big numbers, higher GDP but low skills means lower living standards for everyone, for generations.

- **Tax paid by international companies** – yes, we do make the rules! So, it’s incompetent policy not dodgy companies. Prosecutions - Facebook?

- **Free trade** – Do the deals. Great politics. But ignore the essential supporting policies. Rust belt – here we come!
NZ Policy – Public Service

- Public Service – poorly led, subservient.
- Makes no public contribution to policy debate.
- Frequent failures, rarely punished; typically reappointed/promoted.
- This is the professional capability of government we are talking about!

- “Free and frank” advice - not welcome here.
- “No surprises” – a noose around their necks!

- It’s a “top down” problem, easily fixed.
NZ policy

- All pretty depressing really!
- Not the view you are used to?
- Ah, the art of politics.

- **Now, a future focus:**
The critical role of exports

• New Zealand – a very small economy.

• Highly dependant on imports for the many goods and services (and capital) it can’t produce economically.

• Imports are financed by exports (including tourism).

• Export growth is critical for sustainable economic growth and higher living standards.

• Exports per capita is a critical indicator of performance.
The critical role of exports

• Exporting is the only sustainable way to finance imports.

• Borrowing increases debt, and also incurs interest (a significant cost); and it must be repaid.

• The capacity to borrow is limited as is the capacity to sell assets.

• Neither are sustainable sources of import financing.
Key points

• Few immigrants generate above average exports – so risk a negative impact on the living standards of all New Zealanders.

• More immigrants mean less skilled and a bigger negative impact; including more pressure on environmental capacity.

• Most export production and tourism is in the regions, which often suffer from lower incomes, access to services and amenities; and higher costs.
Key points - Auckland

- Auckland – low exports, innovation and GDP per capita (one of the lowest of 80 OECD Metros).
- Heavily subsidised by the Regions.

- Auckland growth increases GDP from building new houses, infrastructure and services.
- **It does not increase GDP or exports per capita.**

- Building houses for new migrants who do not add economic value is not sensible.

- How about bringing in more migrants to build those houses?
Exports are undervalued and exporters under-rewarded

- Foreign currency receipts for exports are undervalued when converted to NZD. This is a structural and a cyclical issue.

- The FX market doesn’t properly value export receipts!

- It is mainly a much bigger volume of other, irrelevant financial transactions.

- The economic value of exports should be based on the value to the economy of the imports they finance; and the cost to finance them by other than exports.

- Removing the marginal $billion of imports would have a very high cost/value loss.
What should be done

• Exporters should take control over their export earnings and realise the full value of them for their benefit and the benefit of their communities and regions.

• There is a wider National benefit in doing this - including more accurate price signals for new investment.
What should be done

• Currently the benefits of exports are shared, by default, amongst all NZ residents.
• It is assumed that the full value of exports is reflected in the financial returns to the exporters.
• This is clearly not the case and the value loss to exporters might be 10% to 40%, or more.
• Higher prices will mean more positive price signals for new investment – which is in the national interest.
What should be done

• Controlling the export revenue flows should be the first step.

• Followed by ensuring that full value is realised by exporters.

• Innovation should be a priority, to minimise the need for political support and regulatory change (blockchain technology?).

• A fiscal mechanism, via income tax for example, would only be a fallback option.
What should be done

• It is up to exporters to lead/force the change process.
• Government must be pressured but will be reluctant - given the political impact of removing the subsidy to the Auckland economy and lifestyle.
• MMP offers options!
• Regional organisations, local government, especially development agencies should be strong advocates and supporters.
• Exporters organisations should also be very actively involved in achieving the changes. Why have they not previously acted?
• But exporters will need to be the core of the process- and determined!
• Exporters are often criticised for the impact/costs they impose on the environment, but do not pay for.
• This should be considered partial compensation for the subsidy they give to non exporters to pay for imports.
• A more realistic level of export earnings will allow exporters to meet these costs directly.
• And remove hidden subsidies.

• THANK YOU
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