

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 Livestrand, Winton
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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
- **Government work** - Regional Development Policy, Savings Working Group, DOC (after Cave Creek), Centres of Research Excellence, Auckland's transport & development, shipping/ports, SSSB, Antarctic Science Strategy, e Government, Foreign Direct Investment Board, Aus-NZ Leadership Forum, APEC/ABAC, Aus-Japan trade/coal dispute, etc; freer trade, immigration policy (Aus).

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.
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- **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 (block chain technology?).
- A fiscal mechanism, via income tax for example, would only be a fall back 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!**

Footnote

- 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.
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- THANK YOU
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