

Economic policy: radical uncertainty or strategic vision ?

Sir Roderick Deane

Comments to the Miro Summit, held under the
auspices of The NZ Initiative at the Formosa
Resort 20-21 September 2012

www.independenteconomics.com

The Prime Minister's View

- I believe in a government that looks after its citizens and provides them with opportunities to flourish, but recognises that people are responsible for their own lives and the well-being of their families. The way to a better future is ultimately in your own hands.
 - I believe in a government that gives people security in times of misfortune and hardship but doesn't trap them in a life of limited income and limited choices you can measure a society by how it looks after its most vulnerable. Yet you can also measure a society by how many vulnerable people it creates – people who are able to work, yet end up depending for long periods on the State.
 - I believe in a government that supports people's hard work and enterprise, and encourages them to set high aspirations
 - I believe in a government that supports families.
- Source: The Prime Minister John Key 5 July, 2012 "Reflections from New Zealand: Address to the Menzies Research Centre John Howard Lecture"

The PM again

- I want to stress, however, that while I think government is about practical, considered decision-making, it is not a technocracy.
- In the end, the biggest, most fundamental decisions governments are called on to make are not reducible to calculation in a spreadsheet.
- Those decisions rely on the judgements of politicians around concepts like fairness, opportunity, and the balance between individual and social responsibility.

- Source: John Key 5 July, 2012 Reflections from New Zealand: Address to the Menzies Research Centre John Howard Lecture

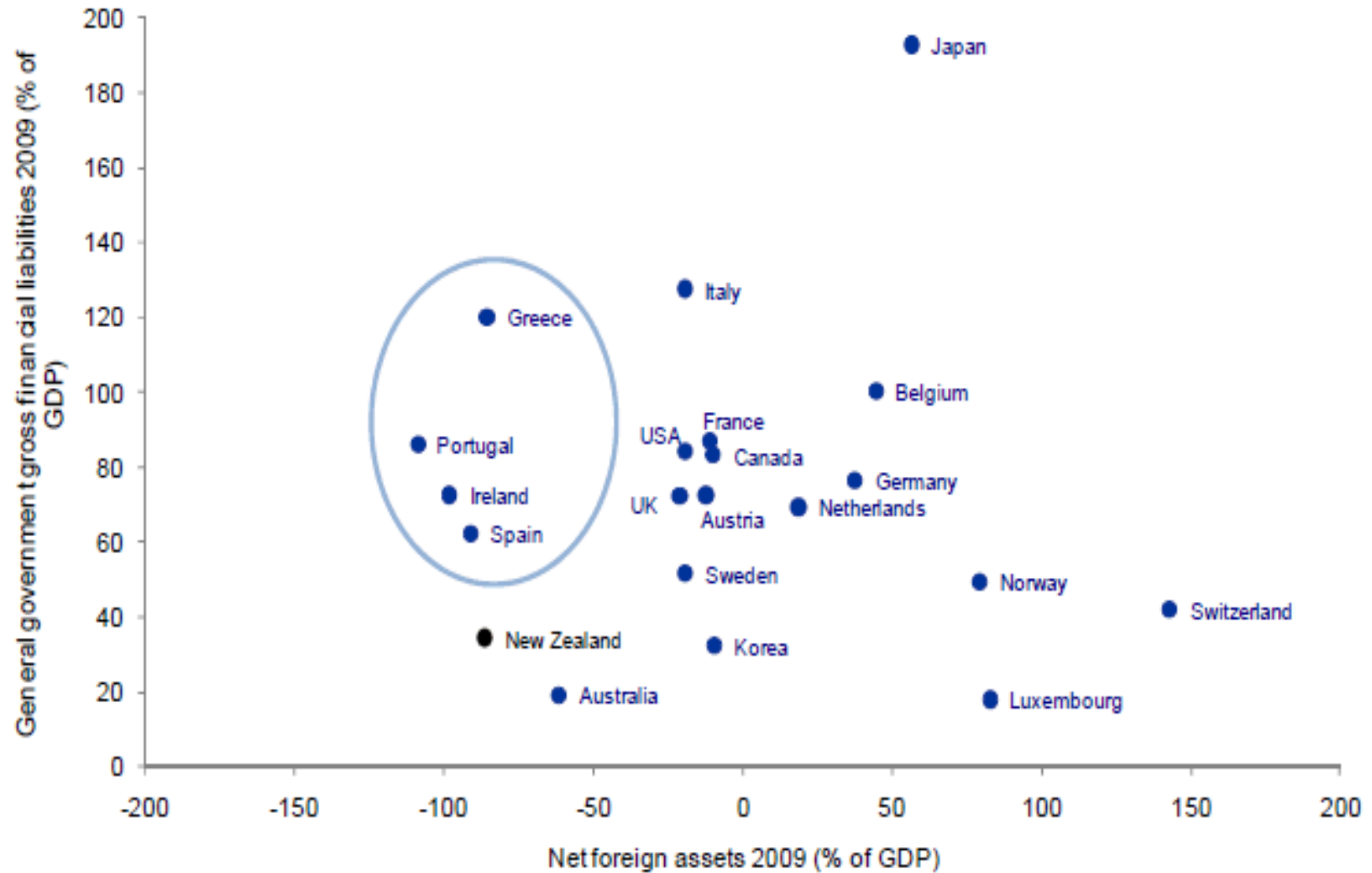
The PM on the National Party

- These are the general principles the National Party has been promoting for the past 76 years: individual responsibility; equality of opportunity; competitive enterprise; tolerance and respect for all New Zealanders; and an essential pragmatism – a belief in the practical and the possible.
 - The National Party has also always understood that businesses large and small create jobs and prosperity.
 - The early leaders of the Party had a belief in the capabilities, and also the responsibilities, of individuals and their families.
 - People had choices and could make better lives for themselves. The government could help them by enabling better choices, but couldn't and shouldn't tell them what to do.
- Source: John Key 5 July, 2012 Reflections from New Zealand: Address to the Menzies Research Centre John Howard Lecture

An economist's view ... and some questions

- **Centralised target setting/planning is a failure**
- **The Communist world proved that comprehensively**
- **Highly interventionist policies are a failure**
- **The New Zealand experience pre-1984 proved that**
- **Much of the 2000's period also demonstrated that**
- **So what is the role of Government ?**
- **Does the Govt need more of a vision ?**
- **Do we need a private/government sector shared vision?**
- **Does the private sector need its own vision ?**

Government debt and net foreign asset position, 2009



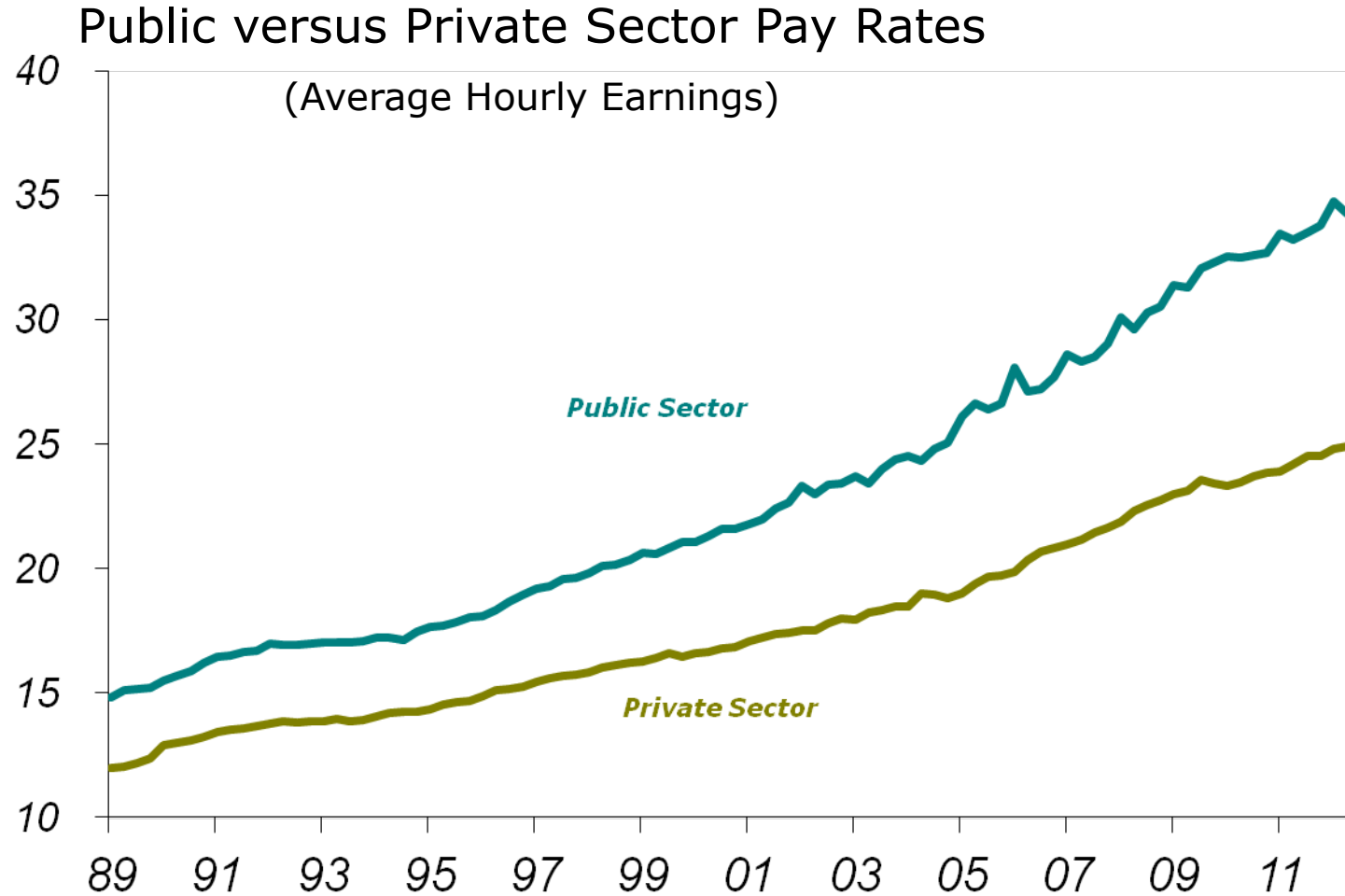
Source: OECD, IMF, Statistics NZ, Savings Working Group 2011

The role of government

- **Government sets the overall policy framework**
- **But the business sector delivers growth**
- **The government framework should comprise:**
- **Smaller government (minimise crowding-out)**
- **Sound monetary policy (to minimise inflation)**
- **Sound fiscal policy (avoid large deficits & debt)**
- **Minimalist regulatory intervention (maintain low transactions costs)**
- **Protection of property rights**
- **Provide legitimate functions (but which ones ?)**

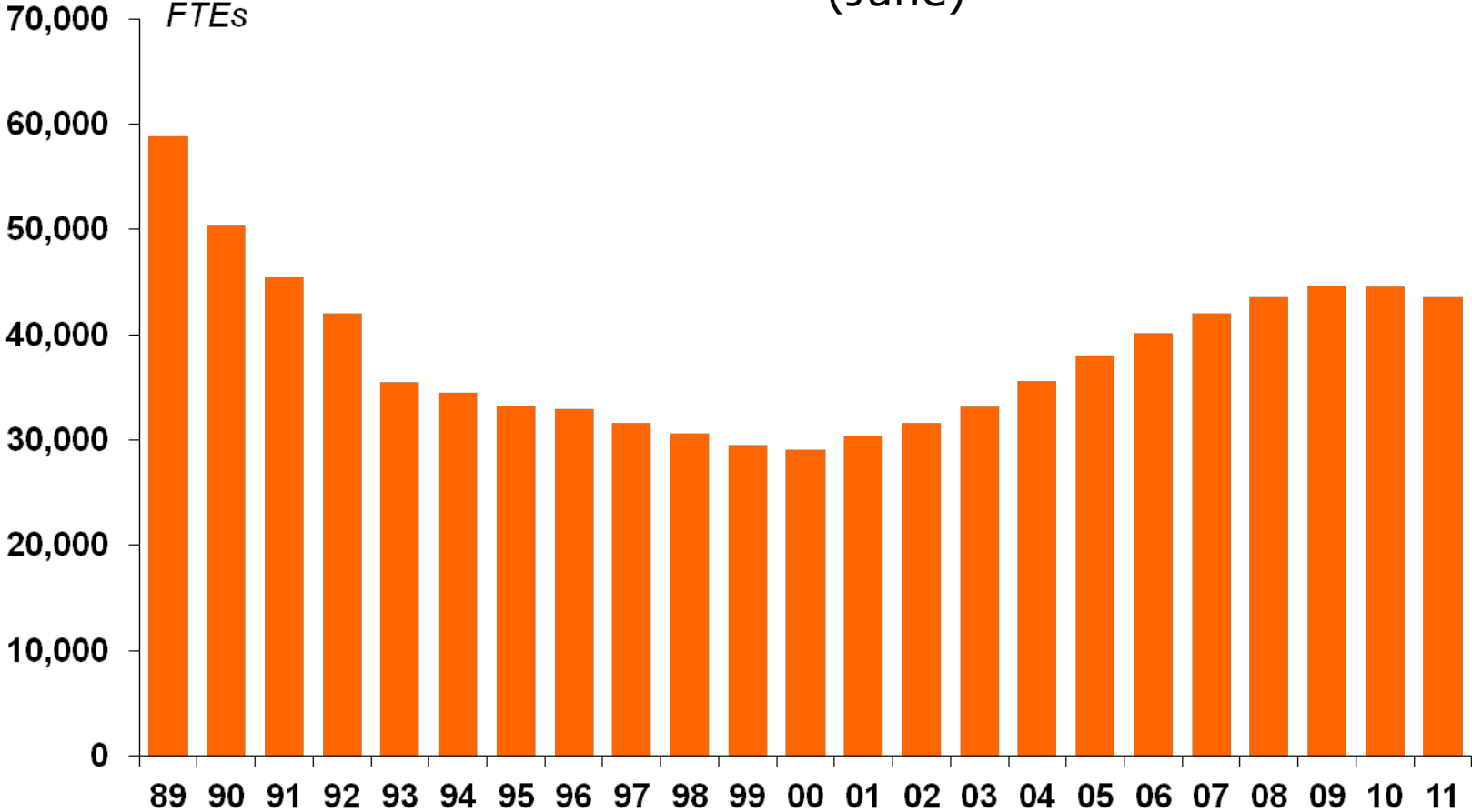
Government pay rates are higher than private sector and increase faster

\$ per hour



The rebirth of growth in the core public service

Core Public Service staff (June)



Source: SSC

Does this approach work ?

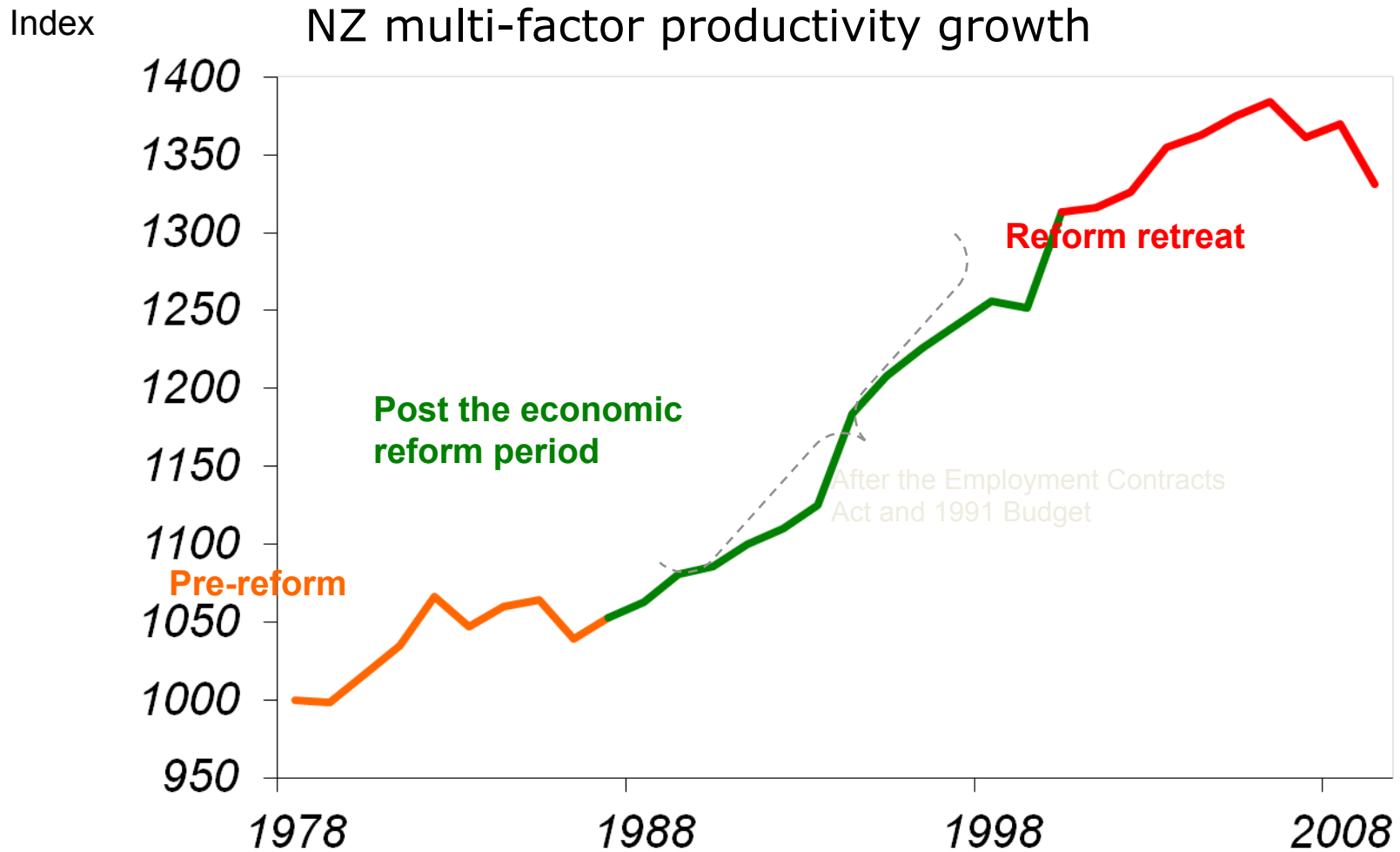
- **It worked from late 1980's to early 2000's**
- **Period of fastest productivity growth for NZ**
- **Fiscal surpluses, low government debt**
- **Much deregulation & lower interventionism**
- **Huge reduction in public service staff no's**
- **From 86,000 in 1987 to 35,000 in 2000+**
- **Good economic and employment growth**
- **Private sector did the job it should do**

Regulatory failure ...

the unintended consequences of regulation

- **Capital market regulation → fall in market value/GDP**
- **Building regulation → higher costs of houses**
- **Prospectus requirements → off market capital raising**
- **Takeover regulations → fewer takeovers**
- **Regulate annual reports → huge detail obscures substance**
- **Regulate financial advisers → higher fees, fewer advisers**
- **Regulate telecommunications → Govt spends \$1.5 billion**
- **Resource consenting takes longer than construction time**
- **Most government officials have never worked in business**

Slow productivity growth is the price of backing off reforms



The basis for economic success ?

- **It requires no particular government “plan”**
- **Nor any pre-determined industrial structure**
- **Nor picking winners (or losers)**
- **Nor any joint private sector/government formal collaboration**
- **Let market prices & incentives do the job**
- **It does need strong leadership**
- **And a consistent & sound policy framework**
- **Why is this so hard ?**

The essence for stronger economic growth

- **Lower taxes**
- **Smaller government**
- **Less intrusive regulation**
- **Privatise SOE's**
- **Protect property rights**
- **Stable fiscal and monetary policies**
- **Do not try to pick winners**
- **Get closer to Australia**
- **Grow with China, India and SE Asia**

Acknowledgement and CV

- Sir Roderick is very appreciative of the assistance he was given in preparing this material by Dr Bryce Wilkinson of Capital Economics and the ANZ Bank economics team in preparing the charts.
- Sir Roderick Deane KNZM, PhD, FACA, FCIS, FNZIM, Hon LLD is an independent economist who has had an extensive career in business as Chairman and as a Director of a number of major New Zealand and Australian companies and earlier top level roles in the public sector, central banking, and economics. He has a substantial involvement with charitable and cultural organisations. He is currently Advisor to Pacific Road Group in Sydney, Chairman of the New Zealand Seed Fund, a Director of Woolworths Limited in Sydney, Joint Patron with his wife Gillian of NZ's largest voluntary welfare organization, IHC Inc., and Chairman of the IHC Foundation. Sir Roderick was the Government appointed Lead External Reviewer for a major Value for Money Review of the New Zealand Defence Forces and was Chairman of an Advisory Group on the Review of Special Education. Both reviews were completed in 2010. He was Chairman of Fletcher Building, ANZ National Bank, Telecom NZ, Te Papa Tongarewa (the Museum of NZ), City Gallery Wellington Foundation; a Director of the ANZ Banking Group in Melbourne and TransAlta Corporation in Canada; and Professor of Economics and Management at Victoria University of Wellington. At an earlier stage he was CEO of Telecom NZ, CEO of Electricity Corporation of NZ, Chairman of the State Services Commission, Deputy Governor & Chief Economist of the Reserve Bank of NZ, & Alternate Executive Director of the International Monetary Fund in Washington DC. He has a wide range of publications. Sir Roderick is a Trustee of the Deane Endowment Trust which has extensive charitable interests in sponsorship of the arts and culture, supporting outstanding young people to study abroad, environmental and wetland preservation, sponsoring the publication of NZ books, assisting people who have rare disorders and disabilities, and the promotion of scientific research in some of these areas.
- See www.independenteconomics.com