

Some Notes on NZ Government Economic Policy

SCORECARD

Context

Overall good grades for major policy outcomes relative to other OECD countries, such as reasonable economic growth, moderate unemployment, and low inflation. But NZ has a poor balance of payments current account deficit and high overseas debt despite generally favourable terms of trade. Productivity growth had been good, now underdone.

Some illustrations of specific policy areas:

Good to very good grades

Monetary policy (well understood policy, low inflation)

Exchange rate policy (minimal intervention)

Labour market flexibility (preserved and enhanced past gains)

Partial privatisation

Roading infrastructure (but it will take years yet)

Good but room for further improvement

Fiscal policy (deficit reduced, surplus in prospect, but been a slow process)

Government expenditure (under control but not really tough on excesses)

Tax rates (no capital gains tax, some income/GST switch, but no further reductions)

Health & Social Welfare (significant improvements but could do better)

Average, could do much better

Numbers of public servants (think how many turn up at meetings and conferences)

Pay rates of public servants (much higher than private sector average)

Tax policy (was world class, gradually returning to middle of the road)

Social policy (e.g. disability benefit growth vastly exceeds population growth)

Housing (reform of state housing but land and regulatory issues still need resolving)

Education (more flexible pay arrangements but overall still scope for improvements)

Struggled but improvements in prospect

Resource Management Act (consultation too protracted, too expensive, too time consuming, much wastefulness and frustration, overhaul promised)

Think they have done well but questionable outcomes

Financial Markets Act ("simplified" but still 597 clauses)

Financial Markets Conduct Act

Capital markets policy generally (very low NZ market capitalization v Australia & others)

Christchurch (CERA CDB centralized policy versus private sector non-CDB build)

Auckland reform (rates up every year, debt doubled in 3 years from \$3.9b to \$7.3b, 900 planning staff, 600 policy staff, salaries over \$100,000 up 20% in last year)

Poor policy or policy with major inadequacies

Ultrafast broadband spend (\$1.35 b. with no business case; negative economic payback)

Industry assistance (cf. KiwiRail, Solid Energy, Sky City, movie industry, NZ Aluminium

Smelters, Crown Fibre/UFB network, rural broadband, finance companies, R & D

“growth grants”, major events funding, back to old time “picking winners”)

Taxpayers union estimates \$1 to 1.4 billion in corporate welfare since 2009

Foreign investment policy (surprisingly complex & restrictive rules)

National superannuation (unwillingness to address aging population costs)

Student interest free loans (now a huge accumulation of unpaid debts)

Finance company bailouts (some failed fully, others bailed out completely)

Regulatory policy generally (too much, too detailed, too costly, too time-consuming, too many public servants love it, government does not seem to know how to address this arena)

Commerce Commission (unnecessary and huge commercial value costs, cf. Progressive

Enterprises; Fletcher Building, Winstones & Knauf; Spark & Chorus)

Takeover regulations (hardly any now occur)

Prospectuses (avoided like the plague by many companies)

Mineral exploration (much promised, little achieved, politically sensitive)

R & D incentives & grants (substantial funding, minimal accountability)

Venture Investment Fund (much invested, little payback)

Government office accommodation (often in the best buildings in town)

Worry zone

NZ overseas debt to GDP ratio one of the highest in the world after the cot cases, debt rating only salvaged by lower than average government debt to GDP ratio

Apparently politically untouchable

Full privatisation

Judicial activism (many corporates now reluctant to go to Courts)

These notes were prepared by Sir Roderick Deane for an address to the New Zealand Initiative annual strategy conference March 2015.