

A mainstream approach to savings By David Skilling

This document was originally published in The Dominion Post, 11 May 2005.

A month ago, the New Zealand Institute proposed a series of policy solutions to lift New Zealand's national savings and to ensure that many more New Zealanders have an asset ownership stake.

These proposals include the creation of endowed individual savings accounts automatically at birth, a 2% across the board tax cut to finance these individual accounts – enabling people to save without cutting into current consumption, as well as a matched savings scheme in which the government will match the first \$1000 of voluntary savings. These accounts can be used to finance the costs of education, a first home deposit, and retirement.

Some have criticised these proposals for being “radical” and “politically impractical”. The implication being that a less aggressive set of proposals would be a more prudent approach.

But this is a not a very powerful criticism. Although our proposals are likely to be significantly bolder than those that the government and opposition parties currently have in mind, they are not at all radical in terms of the international policy experience. Indeed, New Zealand is likely to be the only Anglo country in which these proposals would be viewed as radical.

Aggressive policies to encourage savings and asset ownership are mainstream in Anglo countries and across the OECD – where significant savings and asset ownership policies are widespread, popular, and successful. Our proposed policy solutions draw on the best of this international thinking and practice.

Consider our proposals for kids' savings accounts. A similar scheme has been implemented by the Blair Government in the UK – the Child Trust Fund – and bipartisan legislation to create kids' savings account is being debated in both Houses of the US Congress. More broadly, education savings accounts for kids are common internationally.

And although much has been made of the fiscal cost of our proposals – around \$3 billion a year when fully implemented – this commitment is less than what governments elsewhere commit. For example, the 2005 US federal budget contained over US\$320 billion – about \$1000 per person – in spending and tax concessions to encourage savings and asset ownership, in addition to the substantial amount of spending at state and local levels. And the Australian federal government has spent about A\$4.5 billion on first home owner grants over the past few years in addition to the 9% of income that is subject to the compulsory savings scheme.

So our proposals are mainstream, not radical, in an international context. And increasingly so, as savings policies are being extended in generosity and scope in many countries.

Moreover, New Zealand has a history of policies to promote asset ownership – such as initiatives to encourage home ownership and to encourage kids to save – and these are commonly thought to have generated positive outcomes. Although some policies did not work well – such as some of the tax breaks for savings – proposing policies that work in today's environment to generate improved asset ownership outcomes for New Zealanders is hardly the stuff of radical reform.

Indeed, it is New Zealand's current approach to savings policy – not our proposals – that is radical in terms of being markedly distinct from policies in other Anglo countries and across

the OECD. No other country has pursued the hands-off policy approach that New Zealand has.

Now, if this radical approach had generated reasonable savings and asset ownership outcomes, the case for change would not be as strong. But unfortunately this is not the case. To take just a few measures, household savings and financial wealth are low and declining, home ownership rates are declining, and New Zealand is one of the most indebted economies in the developed world.

On the basis of this New Zealand evidence, combined with the supportive international evidence on savings policy and the advances in international thinking, there is now a compelling case for a deliberate approach to promote savings and asset ownership. Even if this case was not clear a decade ago, it certainly is now. As John Maynard Keynes famously said “when the facts change, I change my mind. What do you do sir?”.

It is unlikely to be a coincidence that New Zealand has the most hands-off policy approach to savings and asset ownership in the OECD and also amongst the worst outcomes.

The response is clear. We have more than enough evidence to suggest that our current radical approach is not working and that we need to return to the international policy mainstream.

The New Zealand Institute’s proposals represent a measured, proportionate response to a substantial economic and social challenge, and draws on the best international thinking and practice. Yes, our proposals are bold because the scale of the economic and social challenge demands a bold response. But the proposals are not radical, and would be regarded as mainstream policy in any other developed country bar New Zealand.

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