

Credit to Cullen for starting savings ball rolling

By David Skilling

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Well, Rome wasn't built in a day and neither will one budget be sufficient to satisfactorily address New Zealand's savings and asset ownership challenges.

But yesterday's budget was the first in many years to contain deliberate policies to encourage personal savings and asset ownership. Such policies are long overdue and Michael Cullen and his colleagues deserve credit for this change in policy direction.

The budget initiatives include a work-based retirement savings scheme, together with assistance to people saving for a first home deposit. The fiscal cost of these initiatives is estimated at \$588 million over the next four years, and to be over \$200 million a year when fully implemented.

Work is also underway to establish a tertiary education savings scheme, although the details and fiscal costs are yet to be confirmed. And changes have been made to the tax system to remove the disincentive to invest through professionally managed funds, which will cost about \$100 million a year.

These policies will have a positive effect on savings by making the saving decision easier for people and by providing a financial incentive for saving. And, over time, many New Zealanders will receive some financial encouragement to save.

But the increase in savings is unlikely to be sufficient to address New Zealand's substantial savings problem, both for individuals and for the national economy. The reality is that "necessarily modest" initiatives are likely to generate only modest improvements in outcomes.

The initiatives are not sufficient in scale to make a substantial impact on the level of national savings, the current account deficit, and New Zealand's external debt. And the amount of financial assistance that many individuals will receive may not be sufficient to generate a material change in their savings behaviour.

Further, the way in which the scheme has been designed may limit its effectiveness in terms of creating a savings habit. Although an up-front contribution to encourage participation makes sense, the absence of any ongoing incentives for saving may mean that people do the minimum to qualify for the government contribution but do not contribute much thereafter.

The major contribution of yesterday's budget is to have overcome policy inertia, and to have laid the groundwork for bolder savings policies in the future. Although overcoming inertia is a significant achievement in itself, the disappointing aspect is that so much more could have been done in the context of a healthy economy and a strong fiscal position.

Now is exactly the right time to take bold action to address the household and national savings challenge. And the proposals made by the New Zealand Institute last month – like an across the board tax cut and a matched savings scheme – provide a good way to bolster these savings initiatives going forward.

So yesterday's budget is a welcome start. The challenge now is to convert this policy start into policy action that is sufficient to genuinely create an ownership society in New Zealand.

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