

Getting growth By David Skilling

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New Zealanders will buy the case for economic growth if it fits their notions of fairness – and if they get a share of the upside, argues David Skilling.

New Zealand's economic debate has largely focused – perhaps unsurprisingly – on the policy changes needed to generate higher rates of economic growth; for example, should we be investing in infrastructure and R&D to increase productivity and innovation, or cutting taxes?

But the task of lifting our economic performance is much more than a technical exercise in policy settings. Economic policy doesn't proceed in a vacuum, and can't be separated from the broader social and political environment: history, culture and values affect the type of policies that can be implemented, and the effectiveness of these policies. Indeed, differences in the social and political context are a major reason why there are marked differences in policy choices between countries – about things like welfare and tax, for instance – and why similar policies have different effects in different places.

New Zealand's economic policies need to take these broader factors into consideration. A drive to improve economic performance is unlikely to be sustained over the long term if New Zealanders are not committed to the goal, or feel the policies are inconsistent with New Zealand culture and values.

The fact that social consensus about growth is important is evident in the economic success experienced by small developed countries like Ireland, Finland, Singapore and Australia over recent decades. Although each of these countries faced different challenges and responded in different ways, they each had a sense of shared purpose about priorities and direction. This doesn't mean there was universal agreement on every policy detail, but there was broad agreement on the strategic direction. This consensus enabled these countries to make the required changes and sustain economic policy over long periods of time, and is recognised to have played an important role in the economic success of these countries.

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In Ireland, for example, this consensus was reflected in the agreement between the two main political parties in the mid-1980s on the key elements of economic direction – foreign direct investment, Europe, education and R&D. In Australia, the Accord between employers, unions, and the government led to some broadly accepted policies. Australia's economic reform also proceeded in a more measured way than in New Zealand, with a greater focus on managing the consequences for affected sectors of the community. As a result, despite a similar amount of economic reform in Australia and New Zealand, Australia seems to have sustained a consensus around economic policy to a greater degree than New Zealand.

FOR RICHER for poorer

- The wealthiest 10% of New Zealanders hold over 50% of total household wealth, and the bottom half holds less than 3%
- 28% of the population have wealth greater than \$200,000, and 43% have greater than \$100,000
- Over 800,000 people have less than \$20,000 in wealth
- 16% of New Zealanders have more liabilities than assets, compared with 4% in Australia and 8% in the US
- Around 70% of New Zealand households own home, but financial assets are owned by less than 20%

Source: 'The Wealth of a Nation' by David Skilling and Arati Waldegrave

Indeed, despite the rhetoric about the importance of growth and of lifting New Zealand into the top half of the OECD, there is little evidence of broad public or political agreement on the relative importance of growth and the appropriate policy direction. One manifestation of this is the marked instability in policy settings, from superannuation to immigration to tax.

Further evidence was provided by the Growth & Innovation Advisory Board's (GIAB) recent survey of attitudes to growth. This suggested New Zealanders have a generally positive attitude to growth, but that this support is 'lukewarm'. Other outcomes receive higher priority, and many respondents struggled to identify personal benefits from economic growth. About 40% of respondents were neutral or negative about the likelihood of getting tangible benefits from growth, like better pay or a better health system. This view is partly influenced by people's experiences over the past couple of decades, with many perceiving the costs of change to have outweighed the benefits in terms of wage growth.

So, even if there is now acceptance of the economic reforms, there is not widespread public enthusiasm among New Zealanders for the ongoing pursuit of economic growth. Rather, there seems to be a general ambivalence about growth.

Given the importance of raising New Zealand's economic performance, a key challenge is to generate a sense of shared purpose around both the importance of economic growth and the broad direction of policy.

The GIAB survey results provide some guidance as to how to do this. I read the results as saying that New Zealanders support growth in a conditional sense. That is, they will support the pursuit of growth if the policies are 'fundamentally fair', in the sense that most people have a reasonable opportunity to share in the benefits of higher growth.

So the challenge is to identify economic policy that is likely to both promote higher economic growth and be consistent with notions of fairness. One promising approach is the creation of an 'ownership society', by encouraging and assisting people to build wealth over their lifetimes so they have a direct stake in the New Zealand economy.

Asset ownership provides a way in which people can benefit from growth, in addition to wage growth, because asset values will generally increase in a growing economy. Indeed, for most New Zealanders, the rise in property prices will have outstripped their wage growth over the past decade.

However, household wealth is highly concentrated in New Zealand and many New Zealanders do not have significant asset holdings and therefore haven't benefited from the rise in asset values. Home ownership rates have declined sharply over the past decade – from 74% in 1991 to 68% in 2001 – meaning that the rise in house prices over this period have benefited a smaller group. And New Zealanders' holdings of financial assets are very low compared to other countries – and

falling. Only about 20% of New Zealand households own financial assets, compared to over 50% in the US. The large number of New Zealanders who don't have an ownership stake in the New Zealand economy is one likely reason for the public ambivalence about growth – many of the benefits of growth are captured by those who do own assets.

Creating an ownership society in which more people own assets is likely to make a significant contribution towards the perception that growth policy is fair. It also means the benefits of growth can be broadly shared without having to engage in extensive redistribution through the tax and welfare systems. In turn, if the gains from growth are widely shared, there's more likely to be broad support for future growth - ensuring that economic policy is both sustainable and effective.

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