

Think big on savings

By David Skilling

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Over the past several months, the Government has repeatedly stated an interest in promoting personal savings and asset ownership. The Prime Minister's speech to open parliament in February, for example, outlined a commitment to develop an ownership society and to lift New Zealand's savings rate.

Budgets are the time when governments have the opportunity to convert statements of good intention into concrete policy action by committing dollars to priority policy areas. So Thursday's budget will provide a good indication of how this Government prioritises policies to improve New Zealand's savings record and create an ownership society. Does the fiscal commitment to savings and ownership policy reflect a seriousness of purpose about substantially improving these outcomes?

Encouragingly, it does appear, from the myriad pre-budget speeches and announcements, that Thursday's budget will be first in many years to contain initiatives to deliberately promote personal savings and asset ownership.

In particular, initiatives are likely to be announced to encourage and facilitate retirement savings through the work place, as well as initiatives to assist those saving for a first home deposit.

And last week the Government announced that it is considering the establishment of a tertiary education savings scheme, although it appears that many of the details are still to be confirmed and it is unclear how generous the government contribution will be.

It is also likely that changes will be made to the tax system to implement the Stobo Review recommendations, so as to remove the tax disincentive to invest through professionally managed funds. It has been argued that these changes will be positive for savings.

Such policy action to promote savings and asset ownership is long overdue, and is to be commended. The past decade or so of a hands-off policy approach to savings and asset ownership has not generated good outcomes, with negative and declining household savings, declining rates of home ownership, sharply rising household debt – including student loan debt, and among the highest levels of external debt in the OECD. And many of these poor outcomes are projected to worsen further. So the sooner that corrective action is taken, the better.

The rather less encouraging aspect of the likely budget initiatives is their scale. Michael Cullen has cautioned that these budget initiatives will be "necessarily modest", citing fiscal constraints and other spending priorities. But modest solutions are unlikely to make a material difference to the substantial savings and ownership challenge that New Zealand faces.

To make a real difference, the policies need to be sufficient to assist many more New Zealanders to build an asset ownership stake and also to substantially raise the level of national savings. Achieving this will require a substantial, sustained commitment – particularly given New Zealand's current outcomes.

So, using this as the standard, are the likely budget initiatives sufficient in magnitude to achieve a material improvement in outcomes?

Until the full details of the budget initiatives are released on Thursday, it is difficult to be precise about the extent to which the initiatives will assist many New Zealanders to get ahead. But the initiatives have been described as very targeted, suggesting that many New Zealanders will not receive assistance around savings and asset ownership. And yet these are issues facing many, if not most, New Zealanders.

But we can be much more certain that a modest policy response won't generate a material improvement in New Zealand's level of national savings.

Consider New Zealand's current savings performance. The OECD report that New Zealand has the lowest household savings rate in the OECD at -6.5% of household income (the Reserve Bank estimate is -9%). As *The Economist* recently noted, this reflects that "people borrow to consume more than they earn" in New Zealand.

This low level of domestic saving means that New Zealand is heavily reliant on importing foreign savings. This is reflected in New Zealand's large, persistent current account deficits – the deficit is currently 6.4% of GDP, one of the largest in the OECD – and in New Zealand's net international investment position of -\$118 billion, over \$29,000 per capita or 84% of GDP, one of the highest in the OECD.

This low level of savings leads to higher interest rates, less investment, and lower growth. Going forward, increasing domestic savings and reducing the reliance on foreign capital, ought to lead to higher rates of investment, productivity, and growth. A focus on increasing national savings should, then, be a key focus of economic policy.

To meaningfully address a challenge of this magnitude requires a substantial and sustained policy commitment – this is not a challenge that can be appropriately remedied with some minor initiatives. So although the budget initiatives that have been signalled are welcome, they are likely to be inadequate to materially improve New Zealand's national savings outcomes.

The New Zealand Institute's view is that a big challenge demands a big response. That is why, last month, we proposed a series of bold policies designed to assist many more New Zealanders to build a meaningful asset ownership position and to lift national savings. Although we have been criticised for being radical, we believe our proposals are a measured, proportionate response to a very substantial economic and social challenge.

So while it is very encouraging to see budget initiatives to promote savings, much more needs to be done if we are serious about addressing the savings and ownership challenge in New Zealand. Having at last overcome the powerful force of inertia around savings policy, the pressing task now is to implement policies that generate meaningful improvements in savings and ownership outcomes for individual New Zealanders and New Zealand as a whole.

And now is the time for bold action by politicians. There is a window of opportunity to improve savings and asset ownership outcomes with a healthy fiscal position and a growing economy. And as revealed in an opinion poll that the New Zealand Institute released last week, there is strong public support for bold policy action to promote savings. This is not the time for half-measures.

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