

Time to demand long term policies

Rick Boven, Director

Some of us complain about insufficient long term thinking by governments but the responsibility is ours. Democracy compels politicians to compete for votes so politicians focus a lot of effort to win sufficient support. If the public wants politicians to offer longer term solutions then they must convince politicians that voters care about long term opportunities and risks.

With a fiscal deficit projected for several years, and high overall debt, ruling out an election “lolly-scramble” comes as no surprise. But the parties must offer packages that win votes. Polling and focus groups are used to ensure that voter preferences are well understood. In this respect our politicians are followers rather than leaders.

If parties offer short term incentives to voting segments often, the public learns that is normal and becomes more likely to make voting choices based on short term benefits for them. There is plenty of scope for parties to compete for votes based on those short term benefits and how they are best delivered.

Voters and politicians seem to agree that managing the economy well is one of the most important tasks for governments. The Government has signalled the importance of long term economic success by establishing the goals of closing the GDP per capita gap with Australia by 2025 and lifting exports to 40% of GDP. Such a huge improvement in economic performance and rapid export growth will not happen by itself.

Policies that encourage immigration and the housing boom were sources of short term benefits prior to the recession but did not establish the foundation for sustainable long term economic success.

Short term economic stimulus is not the same as long term economic growth. What New Zealand needs now is policies that will lift long term economic performance by, for example, growing high productivity sectors, increasing the productivity of workers and ensuring capital is available for exporters who need it. These economic improvements take time and the changes and investment required might not be popular with voters who are motivated mainly by “what’s in it for me now?”

Good management depends on having the right balance between the short and the long term. We might want to continue to grow our consumption without regard to long term consequences such as growing debt but most of us now realise that there is a high price to pay for neglect of longer term consequences.

A little arithmetic demonstrates Government’s targets require exports to approximately triple by 2025. If that is a real goal, and there is a serious commitment to growing faster than the world’s leading economies so we can catch up, that would imply substantial investment and effort will be needed, and justified, and that we should be getting started quickly. It is not going to happen with business as usual. It would be great to know how. Is anyone running

the numbers and what are they telling us about how the economic plan will get us to the goal?

But preparing for the longer term requires much more than just working out and communicating how long term goals will be achieved. Long term planning is distinguished by relaxing the assumption that short term conditions will persist.

In the past it may have been reasonable to think of the long term as a series of short-terms because important economic trends have continued since the 1950s without changing much or being disrupted. Population and economic growth, rising real wages and asset values, reducing real prices for commodities, increasing trade and globalisation are established long term trends.

Now that environmentally driven constraints are affecting economies and population growth is slowing in developed countries, many of these trends are changing. If we do not reduce fossil fuel use soon it will be too late to avoid large and dangerous climate changes. If we do reduce fossil fuel use to slow climate change and in response to emerging liquid fuel constraints then energy price rises are likely, creating risks for the economy. These forces are important and they are new.

Emerging global shortages have already led to an almost doubling of food prices in the last decade and price increases for other commodities too, notably oil and minerals. Some countries are already investing in many different ways to secure their future supply chains, encouraging trade expansion. Others are building self-sufficiency for important resources, which will tend to reduce trade. Globalisation forces are changing.

The demographic structure of New Zealand is changing too, so there are many long term workforce, health and aging issues. New Zealand's many disadvantaged youth and children may be a long term asset or a huge future cost. Geopolitical power is shifting and volatility may have increased permanently.

The trouble with not paying enough attention to long term planning is that you risk finding surprises in your short term reality. Neglect regulation and debt, for example, and you get the Global Financial Crisis.

Politicians as individuals care a lot about the long term and they do act to improve long term outcomes. But collectively, it seems they are not doing enough.

There are many reasons why long term issues might not get as much attention as they deserve. Politicians and voters may believe that the trends of the past will continue unchanged or that they are changing but there is plenty of time to deal with issues later. People may believe there is enough attention already being paid to the long term.

These are arguments that there is not a problem, but persistent economic and social under-performance combine with the absence of widely understood plans to improve long term outcomes to suggest there is.

Solving New Zealand's long term issues is important so politicians sometimes set out with good intentions and ambitious goals, but then find the issues too difficult to solve. Like many of us, politicians are very busy people and it takes a lot of time and effort to deal with pressing short term issues and win voter support so they may not have enough time or

energy to attend to difficult long term issues too. Or, there may not be enough money to invest in the long term, given short term spending decisions. Sometimes solutions to long term issues may be known but not implemented because important voter segments would not be supportive.

Most likely it is different combinations of these issues for each politician and each long term issue. The situation is understandable but it is not acceptable. But what can we do?

Kings, dictators and one-party-states have a simple mechanism that ensures attention to the long term. Their leaders expect to be still governing in the long term. The comparable mechanism in multiparty democracies is voters' attention to the long term.

If voters and politicians continue to lead one another to de-emphasise the long term then we risk getting what we deserve; policies that deliver benefits in the short term along with economic, social and environmental underperformance, and increased risk of nasty surprises in our future.

More dialogue about the long term will help politicians too. If politicians expressed their views about what kind of country they want New Zealand to be, and how their policies are going to get us there, then more voters would understand the wisdom of investing to gain longer term benefits.

ENDS