

Transformation or incremental improvement?

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In the March media release announcing the date of the 2006 Budget, Michael Cullen made two comments. First, that “Budget 2006 will underline the government's commitment to transforming the economy”. Second, a few paragraphs later, “Dr Cullen reiterated that restraint would be the watchword for Budget 2006”.

It is not clear that these two statements can be reconciled with each other. So it was perhaps not surprising that Dr Cullen's prediction was only half right.

Outside of the expected growth in health and education spending, a reasonable amount of fiscal restraint was exercised in terms of new initiatives and tax cuts. But if yesterday's Budget was intended to underline the government's commitment to economic transformation, then we are in real trouble.

Transformation by definition is about a substantial process of change, rather than a series of incremental improvements. And it is transformation that is required given the major economic challenges facing New Zealand. There is a pressing need to respond to these challenges with aggression and urgency. Unfortunately, the 2006 Budget does not move us far in this direction.

Budgets are the annual event where a clear measure is provided in terms of how serious the government is about achieving various goals. It is the opportunity to convert policy statements into tangible actions. Unfortunately, on yesterday's indications, the economic transformation agenda ranks well behind other priorities.

Now credit where credit is due. There are initiatives in the Budget that are likely to have a positive effect on New Zealand's economic growth prospects, such as the significantly increased infrastructure investments, the increased spending on skills and industry training, the increased spending on science and research, and the export market development grants.

But although many of these initiatives are directionally sound, they are unlikely to generate a substantial improvement in New Zealand's economic prospects. The missing ingredient is materiality. Economic transformation is necessarily more than the handful of sensible, but modest initiatives that were included in yesterday's Budget.

Of course, the local loop unbundling decision that was inadvertently pre-released is a bold move rather than a modest one. And it is encouraging to see the government being prepared to take some risks to pursue initiatives designed to strengthen the New Zealand economy, although the jury is out in terms of whether this will work as intended.

The overall sense from yesterday's Budget is that the talk of transforming the economy has not been matched by real action. Ultimately a government cannot pursue an economic transformation agenda without making substantial investments and commitments. It will not happen spontaneously or on the cheap.

There was much focus in the Budget on the good management of the long-term fiscal position, but rather less focus on improving New Zealand's long-term economic prospects. And ultimately what really matters is the underlying strength of the economy.

This is not a call for reckless fiscal policy. The government does not have unlimited resource and it needs to manage its fiscal position carefully. But ultimately this is about trade-offs and being able to prioritise. Spending money on interest free student loans, for example, means less is available for policies that will help to transform the economy.

In sum, the Budget has not communicated real seriousness of purpose around economic growth. Although many of the initiatives announced yesterday were positive, they are insufficient to move the New Zealand economy to a significantly higher growth path. Given New Zealand's relative economic standing, we much need more than careful management and incremental improvements. New Zealand needs policies with ambition and creativity that position New Zealand to win in an increasingly competitive international environment.

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