

Essay

Transforming the New Zealand economy in 7 minutes or less

David Skilling

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The New Zealand Institute

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Essays

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Transforming the New Zealand economy in 7 minutes or less

Dr David Skilling
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Sixty years ago, New Zealand poet Allan Curnow wrote:

Not I. Some child born in a marvellous year
Will learn the trick of standing upright here¹

I'd like to be part of the generation that works out how to make a success of living in a small, isolated, island state. And what I am particularly focused on is how to transform the New Zealand economy into an internationally engaged, knowledge driven, prosperous economy that provides genuinely world-class opportunities.

Sixty years on, a young New Zealand poet Glen Colquhoun wrote the following as a response:

The art of walking upright here
is the art of using both feet
One is for holding on.
One is for letting go.²

The claim that I want to advance tonight is that this response contains real insight into the priorities for action in terms of transforming the New Zealand economy.

There are two senses in which this metaphor resonates with me. The first is in terms of the concrete actions that we need to take to transform the New Zealand economy. And the second is in terms of the mindset that we will need to adopt to make this happen.

An agenda for economic transformation

The foot that is holding on speaks to building real competitive strength in the New Zealand economy. Having spent the past 20 years getting rid of bad policy, the challenge for the next 20 years and beyond is to build a New Zealand economy that can compete successfully on the world stage.

I believe that building economic strength in New Zealand will involve:

1. Increasing saving

New Zealand is heavily reliant on foreign savers to finance domestic investment because New Zealand households have the worst savings record in the OECD. This situation generates poor outcomes like a huge current account deficit, high interest rates, and weak capital markets. This needs to be addressed through an ambitious savings plan, probably with a compulsory element as in Australia, so that New Zealand becomes a nation of owners not just employees and so that New Zealand capital can increasingly finance the international expansion of New Zealand firms.

2. Increasing domestic investment

A key reason that New Zealand's income level is lower than Australia's is the low level of investment in New Zealand. So we need increased business investment in plant & equipment, ICT etc – as well as investment in energy, transport, and communications infrastructure – with a particular focus on the investments needed for New Zealand to prosper in the 21st century.

¹ 'The Skeleton of the Great Moa, in the Canterbury Museum, Christchurch', 1943.

² 'The Art of Walking Upright', 1999.

3. Making a national commitment to research and education

New Zealand lags most other developed countries in terms of how much we spend on science and R&D, and this is a key reason why today's New Zealand economy looks much like it did a few decades ago. In order to transform the economy and build new strengths, we need to make a substantial and sustained commitment to research. To give a sense of calibration, Singapore have just committed to double their R&D spend over the next 5 years.

But we also need to let go of the New Zealand economy, and understand that our economic success rests in large measure on our performance beyond our shores.

4. Creating a global New Zealand economy

As a country of just 4 million people, our economic prospects are very heavily contingent on the ability of New Zealand firms to move systematically into international markets and compete successfully. The government has an important role in making this task easier, but ultimately this requires New Zealand companies with the capacity and aspiration to go global.

A shift in mindset

The mindset and attitudes with which we approach this task matters enormously.

In terms of 'holding on' we need to be very focused on outcomes, putting the right policies in place to achieve these goals, and then executing with real discipline.

5. Relentless pursuit of aspirational targets

Rather than being focused on policy as process – concentrating on how level the playing field is – we need to focus on identifying the strategic outcomes that we want to hit, and then pulling out all the stops to configure policy to achieve these goals. We need to benchmark internationally, and continually evaluate whether we are making progress or not.

Letting go is the creative, risk-taking part of the process.

6. Dream big dreams

As a country, we need to dream big dreams, to have high aspirations, and to develop confidence about our future. We should be allowed to think big again. I want New Zealand to be a country where we routinely achieve completely unreasonable goals. Where we take on the world and expect to win on a systematic basis and big time. Where we are not constrained by modest expectations, and what I call the 'tyranny of reasonableness', but aspire to the best in the world.

7. Move forward together

Successful countries don't just happen. They are the result of deliberate, sustained effort by the private sector, community groups, and government. We need to generate a Team New Zealand approach, where we are all pulling in the same direction. Countries who have a sense of shared purpose are better able to sustain direction over a longer period, and are more likely to succeed.

In summary, the New Zealand economy needs to be built. We need to get back in the nation building game with real seriousness of purpose, and with a combination of holding on and letting go. Only then will we be in a position to hit our full potential as a country.