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NEW ZEALAND CENTRE FOR POLITICAL RESEARCH

POLITICAL AGENDAS PUT ECONOMY AT RISK

Dr Muriel Newman

Prime Minister Helen Clark is right when she says blocking the sale of a 40 percent interest in Auckland International Airport is a defining issue. Such political intervention is arrogant, damaging and reckless. It defines New Zealand as a state controlled economy.

For no reason other than advancing a political agenda, Labour Ministers overturned the recommendation of the Overseas Investment Office that the deal with the Canada Pension Plan Investment Board should go ahead. In doing so they over-rode the wishes – and the private property rights - of the 29,000 shareholders of Auckland International Airport who had accepted the offer.

It is indeed ironic that Winston Peters, who did not consider the airport “strategic” in 1998 when as Treasurer he sold the government’s 51.6 percent holding, has jumped on the bandwagon, using taxpayers’ money to fund a national media campaign to oppose foreign capital investment.

It’s this kind of hypocrisy and the pursuit of state control agendas that reveals how badly New Zealand is served by its politicians. It is shameful when those we elect to lead not only put their own interests first, but do so at the expense of those they pretend to lead.

Ministers Gosgrove and Parker scuttled the Airport deal on the basis that a \$1.75 billion investment of foreign capital “would not benefit New Zealand”. That of course is a lie. Their decision was made for them last month when the government pushed through (by Order in Council thereby avoiding Parliamentary debate and scrutiny) an amendment to the Overseas Investment Act. That law change extended the Ministers’ power to veto the deal by adding a new test which asks “whether the overseas investment will, or is likely to, assist New Zealand to maintain New Zealand control of strategically important infrastructure on sensitive land”. (For details of the Act, see www.nzcom.com).

In reaching their decision Gosgrove and Parker were merely serving their political masters. Helen Clark confirmed as much in her speech to the Labour Congress yesterday when she said that asset sales are going to be a key election issue. Clearly she is looking for a point of difference to counter National’s move to the centre.

Ironically the veto is also in direct conflict with Michael Cullen’s statement during the passing of the Overseas Investment Act three years ago: *“I want to say quite clearly that it is critical for the future of this country, and for our social and cultural development, that we have a welcoming and open attitude towards inwards foreign direct investment... if this country relied on its own capital resources alone, we would not just not grow; this economy would shrink, because*

our investment levels would be insufficient to maintain our current level of economic activity.”

The implications of the government’s actions reach far beyond political imperatives. They seriously undermine confidence in the independence of New Zealand’s investment markets. Overseas investment is now at the discretion of our politicians. This creates uncertainty for our capital providers, who quite rightly will be asking questions about exactly which assets the government considers strategic and whether all countries will be treated equally.

In light of Labour’s free trade deal with China, the question arises as to whether a Chinese Corporation would have been more successful in making a bid for a stake in Auckland Airport? Is it now a case of our government looking more favourably on deals with a communist regime than a western democracy?

We should also not lose sight of the fact that our banking system relies heavily on foreign capital. Our main trading banks access between 25 and 40 percent of their funding from international wholesale financial markets. That means between \$25,000 and \$40,000 of a \$100,000 home mortgage is sourced from foreign capital markets. During this calendar year some \$100 billion of foreign debt is due to mature or rollover. Should those international investors lose confidence in New Zealand, they will, over time, choose to invest elsewhere, leaving our banking system deprived of funds to on-lend to New Zealand home owners and businesses. . (Full details of New Zealand’s financial position can be seen in the Statistics New Zealand Balance of Payment and International Position spreadsheets - [click here >>>>](#))

In his article “Why the airport decision is an unaffordable luxury”, financial journalist Bernard Hickey states that the last thing the government should be doing is scaring off foreign investors:

“We simply cannot afford to turn away NZ\$1.8 billion of foreign money, particularly foreign portfolio investment. Foreign investors and lenders have us by the short and curlies. To think we can choose to tell a few of them to go away for base political reasons is naïve and dangerous”.

The government’s actions over the Airport deal will undoubtedly further erode business confidence, which has already fallen to the lowest ebb since the 1970s. The latest NZIER Quarterly Survey of Business Opinion shows business confidence plunging with 64 percent expecting the business situation to deteriorate over the next six months compared with 26 percent in December. None of those surveyed intended to increase staff numbers, 62 percent expected their costs to increase, and 45 percent intended to increase their

selling prices. The survey also showed that New Zealand manufacturers were far more pessimistic about the general business situation than their Australian counterparts with 73 percent expecting conditions to deteriorate compared with 12 percent of Australian manufacturers.

Phil Rennie, a Policy Analyst with the Centre for Independent Studies – and this week’s NZCPR Guest Commentator – picks up on this theme in his opinion piece “Five Ideas to Super-Size New Zealand’s Economy:

“For the last 30 years the Aussies have been flogging us at economic performance. The average wage in Australia is now a third higher than in New Zealand, which means more exciting, and rewarding jobs, more opportunities for young people and better social outcomes. It’s a big reason why nearly a quarter of our university graduates are overseas, when the equivalent figure in Australia is just 2%. There is nothing wrong with exploring the world and building a career overseas, but the crucial question for New Zealand is: how many of these talented young people will come back? No-one really knows yet”.

Phil identifies high taxes and the excessive size of the New Zealand government as being core reasons for our underperformance:

“New Zealand is the highest taxed English-speaking nation in the OECD and well above Australia. For the last eight years the government has increased spending to the extent that the entire public sector now makes up 45% of the economy, higher than it was under Muldoon in 1984. This compares to just 35% in Australia. With nearly half of all wealth created in New Zealand in the hands of politicians and bureaucrats we need to be sure we are getting good results”.
To read the article see www.nzcpr.com.

The key to improve New Zealand’s performance is obviously to lower taxes and reduce the size of government. The problem is that politicians who support higher taxes and greater state control resort to scaremongering, claiming that such moves will cut social services and cause poorer health, education and welfare outcomes. However, an important new report from the Centre for Policy Studies puts paid to that myth.

The study, “Big, Not Better”, compares the performance of 20 industrialised countries - ten countries with “slimmer governments” like Ireland, United States, and Canada, where government spending is below 40 percent of the economy, are compared with ten “bigger government” economies including Sweden, the UK and Germany. The results clearly show that countries with slimmer governments perform better. Lower personal and corporate taxes and less government spending stimulate enterprise, harder work and higher levels of savings and investment. These boost economic growth, making more resources available to improve health, education and other social services. Further, the report finds that household incomes and overall living standards rise faster in slimmer government economies.

In an attempt to stem plummeting business confidence, Reserve Bank Governor Alan Bollard told a business audience on Wednesday that “the New Zealand economy remains fundamentally sound and creditworthy”. He warned however, that “the government’s fiscal policy was more expansionary this year adding to inflationary pressure from fuel and food prices”. He also said that he expected “a significant boost to inflation from the carbon emissions scheme”.

In other words, significant inflationary pressure is now expected to come from the government itself, especially their climate change agenda. This creates difficulties for Dr Bollard who cannot lower interest rates to stimulate the economy while the government continues with its inflationary programme. That means that households will continue to be squeezed by high interest rates and rising prices and businesses will face a negative environment in which confidence is collapsing. In this context the risk of foreign capital flight is real and government’s blocking of the Airport deal is reckless.

The poll this week asks: Do you think Labour’s rejection of the Canadian Pension Plan \$1.75 billion offer for Auckland International Airport shares is good for the country?

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