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# **Business**ROUNDTABLE

PROMOTING POLICIES FOR A BETTER NEW ZEALAND

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# The World Economy and What New Zealand Must Do to Succeed in It

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Forest and Wood Conference

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# Overview

- Emerging from the global financial crisis
- Outlook for the world economy
- New Zealand's big challenges: competitiveness and productivity
- Policy issues



# Emerging from the GFC

- Recession ending in most OECD countries
- Not Armageddon (output loss 3% in New Zealand)
- Much wreckage left behind: overhang from monetary and fiscal stimulus, esp in US, UK, Germany
- Still risks of policy follies: protectionism, populist regulation, expanded government

# Lessons

- Another made-by-government crisis, not a 'crisis of capitalism'
- Importance of sound banking systems
- Benefits of fiscal stimulus dubious
- Economic security trumps other priorities (eg climate change)
- Recessions will happen again



# Outlook for the world economy

- Market-oriented economic reforms of last 25 years not fundamentally in question
- Big-government trends in US, Europe, Japan will lead to sluggish growth
- Counter-reactions and surprises always possible (eg German election)
- China and India unlikely to change direction
- Importance of emerging high-growth countries

# New Zealand situation

- Recession home-made
- Government responded in orthodox ways: monetary easing, no additional fiscal stimulus, focus on regulation
- Cyclical problems of unemployment and deficits
- Risk of unbalanced recovery



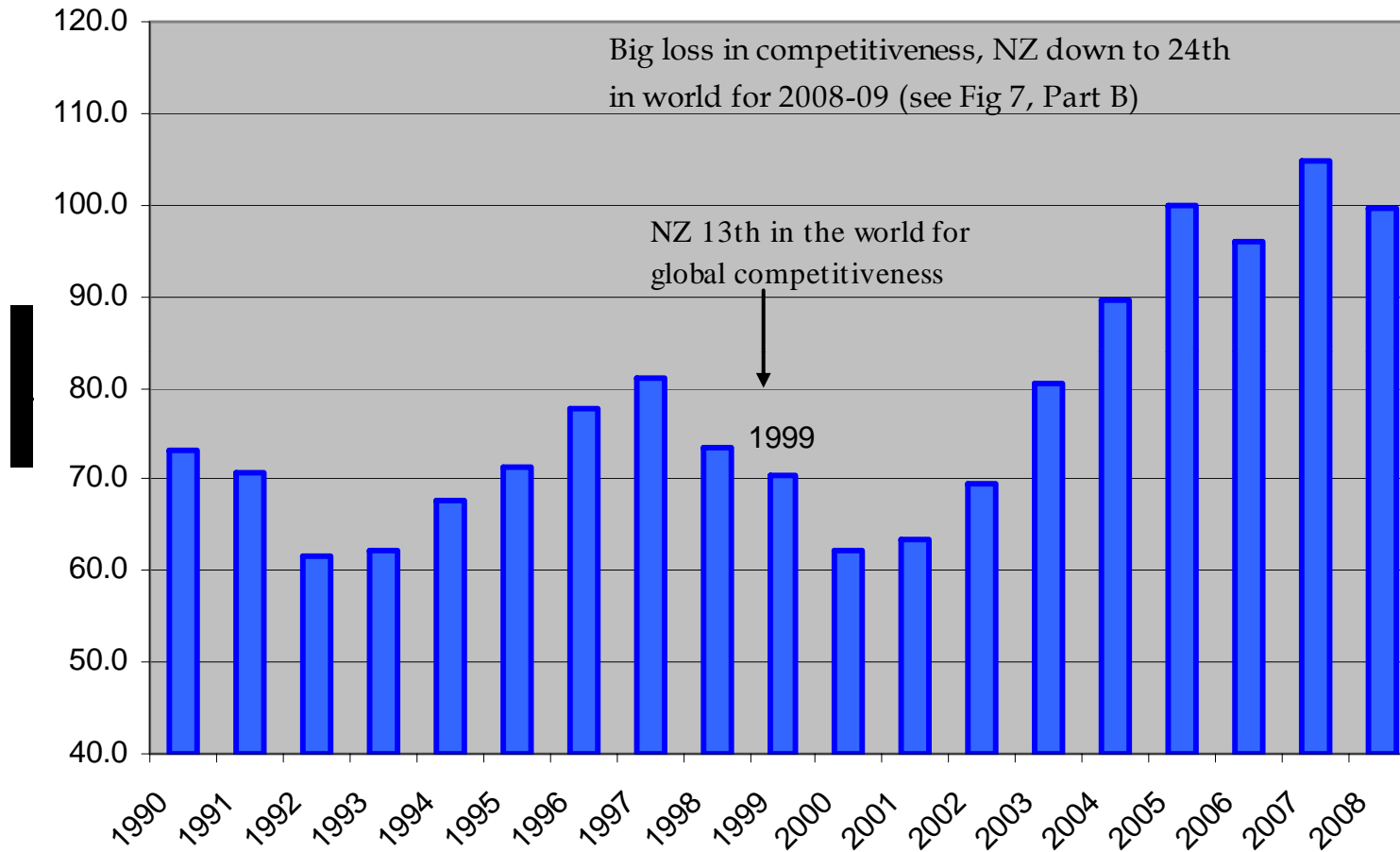
# Underlying problems

- Competitiveness, current account deficit, external debt
- Low productivity growth



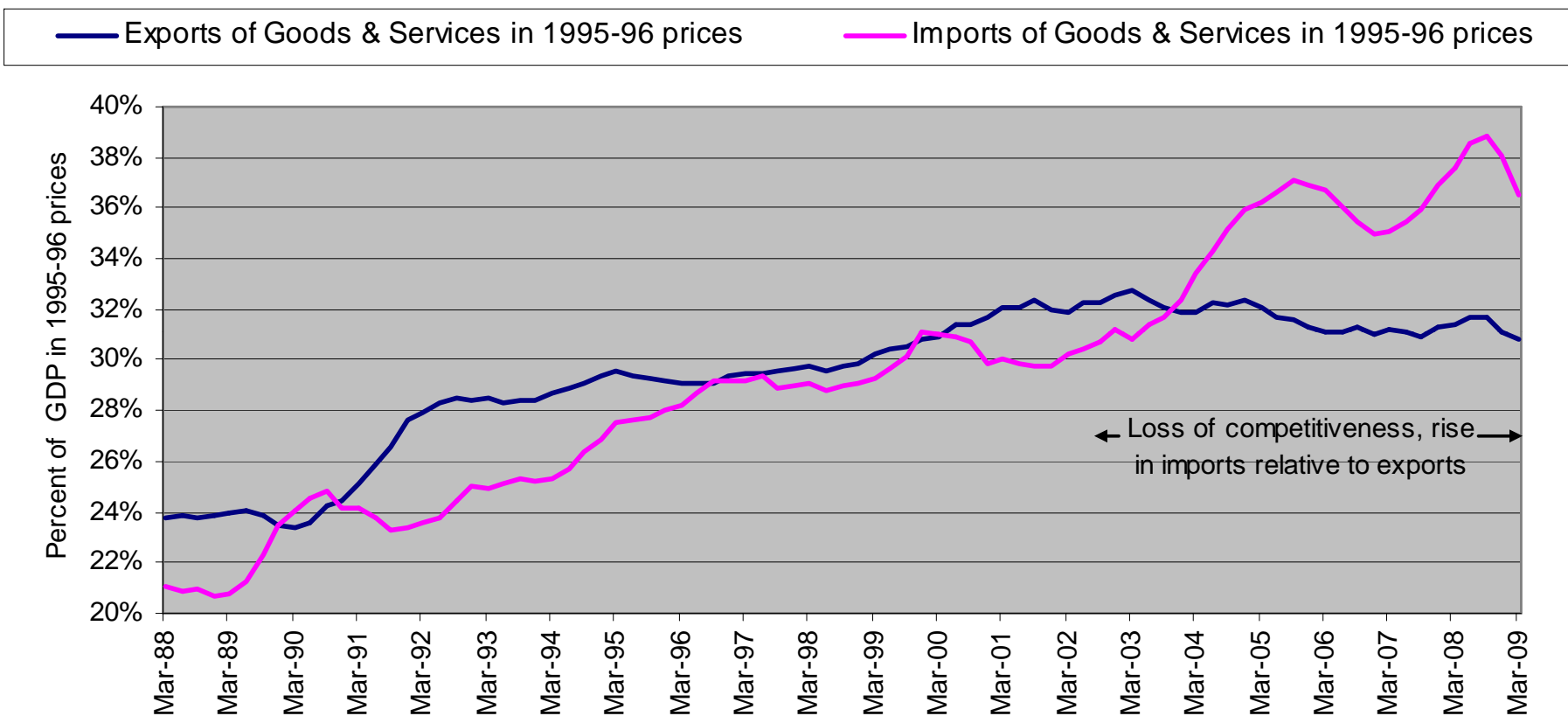


**Figure 12: New Zealand Competitiveness: Relative Unit Labour Costs  
(an increase in this index is a reduction in competitiveness)**



Source: OECD, *Economic Outlook* No 85, June 2009, annex table

**Figure 13: External Trade Ratios to Real GDP**  
 (Annual ratios at quarterly rests)



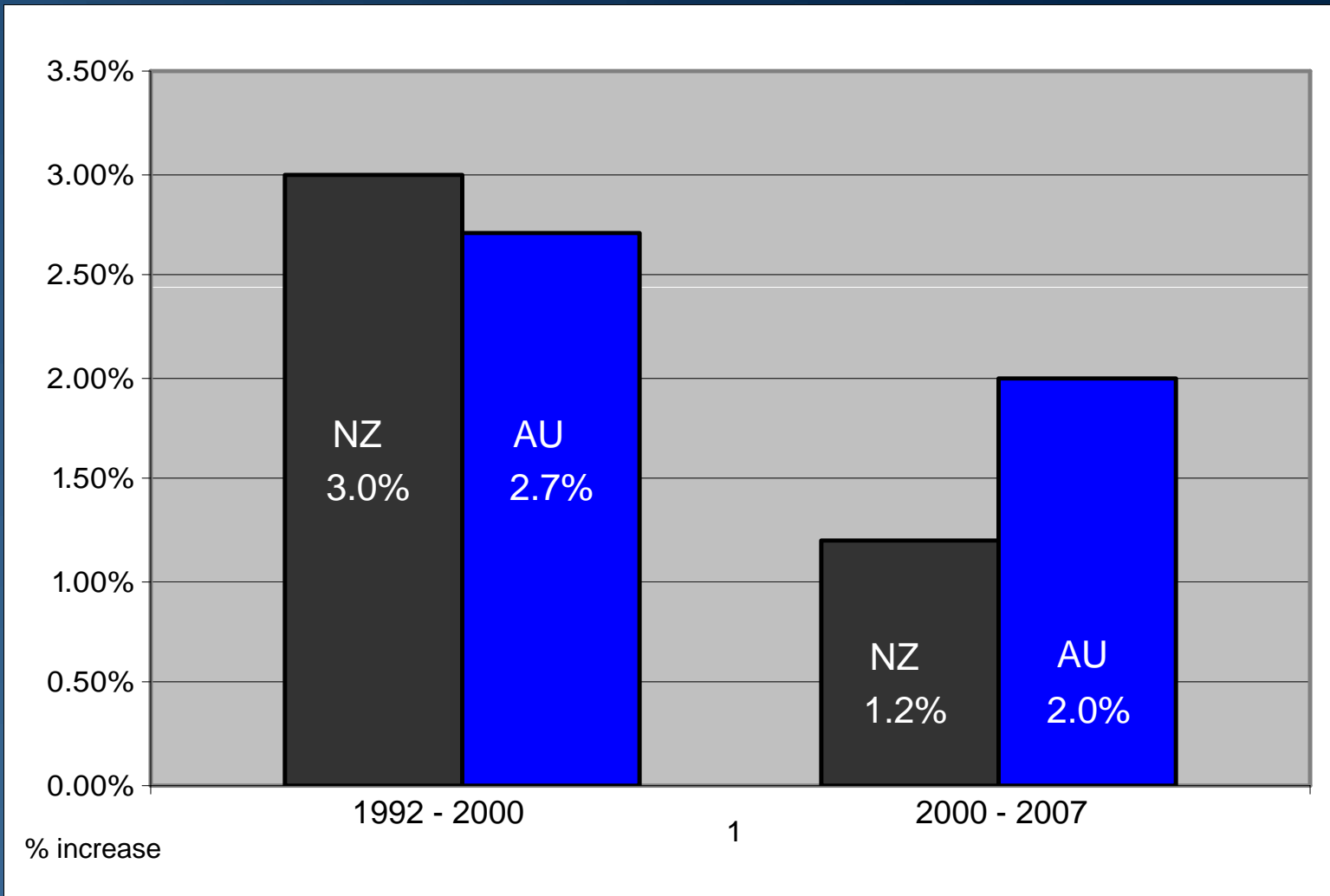
Source: Statistics New Zealand, SNCQ.S4RP60, SNCQ.S4RP61 & SNCQ.S1RB15

# What is productivity?

- What we produce from the resources we use  
– labour, capital
- Distinguish level and rate of growth
- Labour productivity: output per hours worked
- Not about how hard or how long we work
- Overall environment matters, not just workplaces



# Labour productivity average annual growth rates - *market sector*



(Source: Capital Economics Limited, Australian Bureau of Statistics & Statistics New Zealand 2008)

# Reasons for earlier productivity improvements

- Open economy
- Reserve Bank Act
- Fiscal Responsibility Act
- Freer labour market
- Greater economic freedom – deregulation, privatisation, lower tax rates



# Backward moves

- Huge increase in central and local government spending – total now 45% of GDP
- Much poor quality spending
- Over-taxation
- Excessive regulation – labour market, network industries, RMA
- Undermining of property rights
- Less economic freedom



# Economic imperatives

- Short-term: reduce vulnerability to external funding constraints
  - requires resource shift from non-tradable (incl govt) to tradable sector
  - premium on economic flexibility, wage restraint
- Raise productivity growth
  - mainly about better institutions (eg MMP) and policies (eg tax, regulation, privatisation, infrastructure, education)



# Forestry sector concerns

- Competitiveness and the exchange rate
- Market demand
- Further processing
- Climate change





# Major current issues

- 2010 budget
- Local government/RMA
- Regulatory Responsibility Act
- Fiscal spending rules
- 2025 Taskforce





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