



Growing the Real Economy

Improving Living Standards

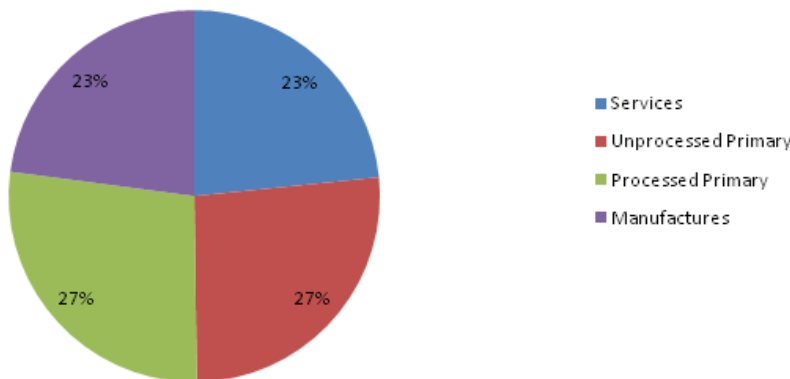
When thinking about the future of wealth of New Zealand, some key questions come to mind:

- Does the traded economy matter to future living standards of New Zealand.
- As part of that traded economy does industrial activity matter?

Some claim industrial activity is a sunset endeavour in New Zealand due to labour costs and that the loss of that activity offshore is an inevitable consequence of economic development. They might even go on to say that the future is about agriculture, mining, tourism and services. If they are right, then basically we have little to worry about other than a policy framework that supports exporters and avoids the tax that an [overvalued exchange rate](#) places on the tradeable sector.

However, long-term price increases on transport fuels threaten all but software and professional services, and cost competition on such services from places such as India have to be a worry to many New Zealanders. Our primary sector is close to peak capacity and is highly indebted, a wilderness tourism experience is self-limiting and the service sector depends largely on underlying wealth creating activities.

New Zealand's Export Profile - June 2009



As the charts show manufacturing and technical capability plays a role in 50% of New Zealand's tradeable exports, and this percentage is growing; manufacturing itself employs around one in ten people directly and as many as five more jobs depend on each person directly employed. This capability provides the crucial point of difference for our products. Absent these manufacturing and technical skills and our economy becomes less complex and consequently offers lower value to international customers.

“Does the traded economy matter to the future living standards of New Zealand?”

“Our primary sector is close to capacity and is highly indebted”

“Manufacturing and technical capability provides the crucial point of difference for our products”

The traded economy does matter to New Zealand, and we must consider how our success or failure in the industrial sector might play through to New Zealand's economic performance and our collective expectation of a place in the first world.

Politicians, bureaucrats and some business organisations paint a future around putting the [dirty bits offshore dressed nicely in the term 'internationalisation'](#). However, few at the coal-face of the real economy see any long term future in the approach. The idea that generally New Zealand's terms of trade will improve as exports lose complexity and simplify is an obvious nonsense. In this sense 'internationalisation' is a dead end, and worse, it threatens our technical capacity and capability to do things which in turn undercuts the ability of the economy to generate the productive innovations of tomorrow.

Faster, sustainable economic growth depends on growth across the economy, including from an expanding industrial sector. Due to our small population, export markets will be a significant feature of that growth – it is very hard to fund appropriate research and development from sales in the New Zealand market alone. A small population means a small market; it also means that most businesses are small to medium-sized enterprises (SMEs), and our future must be in developing SME manufacturing and exporting strengths.

Without internationally competitive, complex, SME based activity, we cannot hope to sustain a high wage economy. Particular success is hard to predict, picking winners is difficult, however, successful behaviour can be promoted and encouraged. Productive activity and exports need a fair go from the policy framework.

Monetary Policy:

- Mechanisms to isolate domestic inflation controls from our exchange rate.
- Balanced taxation: on capital gains in addition to revenue and consumption taxes.

Fiscal Policy:

- Research and development tax credits that match those around the world.
- Productive investment – expense plant, tooling and patents.
- Development of human capital.
- More investment in productive enterprise.

Without a new approach, all that can be anticipated is more of the same economic decline that has played out in New Zealand for the past three decades.

There has to be a better way.

Further reading:

- [Monetary Policy and Productivity](#)
- [Exchange Rate – Sustaining Trade](#)
- [Research and Development](#)
- [Asset Tax and Productivity](#)

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