

Savings Working Group a Good Initiative

The savings debate has not always been well-informed, and it's good that the government has put together a well qualified group to advise it.

The last official inquiry was part of the 2001 McLeod Tax Review. It found that:

- it was not apparent that New Zealanders save too little
- there is little evidence that changes to the tax system would induce higher saving
- the current account balance is the result of many influences (such as New Zealand's international competitiveness), not just saving
- most New Zealanders are making adequate provision for their retirement, given New Zealand Superannuation, and
- higher private savings would lower the cost of NZS only if it were means-tested.

The SWG will need to review these findings, starting with facts about saving.

Total national saving comprises government, business and household saving. They are inter-related. If governments save a lot (run large fiscal surpluses) the private sector is likely to save less. Most economists think the main thing governments can do to raise savings is reduce fiscal deficits.

Saving is difficult to measure, but OECD statistics suggest New Zealand's national saving rate is above that of the United Kingdom, the United States and some other OECD countries.

Moreover, there is no 'right' level of saving. People save to be able to consume more in the future. Arguably the government should not bias

lifetime consumption decisions. Rather, it should avoid unduly distorting them.

Simply raising saving is not a valid policy goal, even if it helped to increase investment and economic growth. Legislating for a 60-hour working week might also increase economic growth but most people would regard themselves as worse off (they value leisure).

It is unlikely that New Zealand is missing out on profitable investment opportunities for savings reasons: firms and households, directly or indirectly, have easy access to world capital markets. And if saving and investment both increased, the current account deficit might be unaffected (it is wrongly diagnosed as just a savings issue).

Another point about compulsory retirement saving is that it could have no permanent effect on national savings as an ageing population would be drawing down accumulations.

At least two parts of the SWG's terms of reference may prove difficult to handle.

Moving to a dual income tax system would probably require the introduction of a capital gains tax, which the government has ruled out. New Zealand also stands out as a country with high labour mobility, which argues against taxing capital at (much) lower rates than labour income.

Adjustment to an aging population is not helped by raising the level of income directed to the retired. Therefore making KiwiSaver compulsory would only make sense if the government introduced a means-tested pension (as in Australia). It has also ruled this out (along with an increase in the eligibility age for NZS – a far more obvious way to reduce future fiscal costs).

The Cullen Fund should also be re-examined but seems to be off-limits.

Indexing the tax system to offset inflation would be complex and has not been favoured internationally. Again a more obvious solution would be to achieve and maintain price stability through sound monetary policy.

As far as the effects of tax policy on saving are concerned, the government has been moving in the right direction with the GST/income tax switch. Further moves towards a lower, flatter and simpler income tax system are desirable.

The very large fiscal cost of KiwiSaver subsidies is certainly a valid saving issue to examine. So too are changes to welfare rules to encourage saving for lifetime contingencies – an issue that the government’s Welfare Working Group is examining.

Addressing New Zealand’s growth challenges and its vulnerability to high external debt levels requires a broad sweep of policy initiatives, not a narrow focus on saving. Saving may encourage growth, but growth also encourages saving. And only a productive, growing economy can generate the goods and services people need in retirement; they can’t consume bank deposits.

So, despite its constraints, the SWG can inform policy in many important areas. I wish it well.

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