

Media Release



Savings Working Group Report a Mixed Bag

“Today’s report by the Savings Working Group contains some important messages but is flawed by dubious analysis and over-reach”, the executive director of the New Zealand Business Roundtable, Roger Kerr, said today.

“The report is correct to highlight New Zealand’s external vulnerabilities but these should not be conflated with savings issues or the balance between New Zealanders’ assets and borrowings. They require a shift of resources from the domestic sector of the economy to export and import-competing industries. Such a shift would not focus directly on boosting savings.

“A glaring deficiency is to overlook the major gains in productivity, international competitiveness and other economic indicators of New Zealand’s earlier reforms.

“The SWG does not address the question of why borrowers and lenders would persistently fail to behave prudently. Focusing on the consequences of poor quality policies – eg observed savings and balance of payments outcomes – rather than directly on any poor underlying policies is likely to lead to policy errors.

“It is disappointing that a group established to address savings still has not established whether New Zealand has any ‘savings problem’ and merely calls for the data to be addressed.

“The report correctly notes that the best thing the government can do to increase national savings is to reduce its own deficit faster, as it has committed to do.

“However, it discounts the vital role of reducing government spending in this process, and indeed proposes increases.

“It is pleasing that the government has ruled out the further increases to GST advocated by the SWG: the focus should be on reducing wasteful spending. Poor quality government spending can have bad consequences for private savings.

“Rejecting compulsory superannuation makes sense – apart from anything else, no fiscal gains would be made unless the government changed New Zealand Superannuation – although it is unfortunate that the government has ruled out increasing the eligibility age.

“There are also real costs to widening the KiwiSaver net. KiwiSaver is simply not optimal for many people who have other savings needs (education, children, small business investment etc.) Paying off a mortgage is a far better option in the long run for many.

“Continuing contributions to the New Zealand Superannuation Fund as recommended by the SWG make little sense while the government is still borrowing heavily. Also NZS returns to date have been poor, as have average returns on Australian compulsory super schemes.

“Several of the tax recommendations look dubious. The best way to reduce portfolio investment entity (PIE) distortions is to get all income tax rates down to a maximum of 28%. Indexing interest income for inflation would be complex, and unnecessary if the Reserve Bank stuck to its goal of achieving and maintaining price stability.

“Notwithstanding some useful discussion and recommendations – two more sound ones are the rejection of a dual income tax system and the partial reintroduction of interest on student loans – the report is very diffuse and some of it is unlikely to survive scrutiny by government advisers and savings professionals”, Mr Kerr concluded.”

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