

## Submission to the “Savings Working Group”

by Paul Baker.

31<sup>st</sup> of January 2011.

### **Basis.**

This submission is made by a private individual, born in New Zealand, with a background in science and engineering.

### **Positives to Encourage Saving.**

Government needs to accentuate the positives of this country and promote these to New Zealanders. These are briefly listed.

1. Stable democracy.
2. Good infrastructure (roads, communications, banking, support etc.)
3. Variety of options to invest in.
4. Accountancy, investment, and legal services are present to assist savers and investors.

### **Negatives to discourage savings.**

These are aspects that Government needs to work on to correct the abysmal savings record by New Zealanders in this country.

1. **Reduce the culture of consumerism:** beach, bach, BMW in preference to investment.
2. **Social welfare.** Discourage use of and reliance on the deep and entrenched social welfare system that reduces savings and encourages consumption etc. This system has been present for most New Zealanders lives and fosters a belief that “one does not have to strive, work, or try, because if you don’t, the State will support you”. This applies to the numerous welfare benefits available and the “lifestyle options” taken by some to dodge work and receive State support – almost intergenerationally in some people’s cases. We have to try our hardest to support ourselves, know this, action it, and save for future life.
3. **Unregulated financial reporting.** Lack of consistency or lack of uniform following of international accounting reporting standards discourages savings as people lose equity when businesses fail due to unethical, unreported, and undetected behaviour. We need better financial reporting standards, better monitoring of reporting and upgraded watchdogs to detect and punish illegal or unethical behaviour. We have almost got a string of zeros on this score.
4. **Poor Government financial role model.** Comparing Governments under Sir Robert Muldoon and David Lange is dramatic with profligacy, interventionism, and centralised control from the former and *forced* State asset sales, economic and social restructuring, redundancies, and ultimately wealth transfers offshore from the latter. Examples are: Telecom, Housing Corp mortgages, Contact Energy, Railways, Forestry ownership, Bank of New Zealand etc. We should have expected and received better long term financial management from our Government. Instead we got the “wild west”.
5. **Lack of Commitment – to the country and the economy.** It is too easy to restart life in Australia. It’s too easy to not try at school, fail exams, and get a job

- or it was. Now it's easier for the sake of self esteem building to dumb down exams so that more people pass with substandard international grades in exam systems which don't foster thinking. It's easy to watch what's happened in Singapore, South Korea, China, and India and not realise that in buying inexpensive foreign produced goods we put New Zealanders out of work. We need to match or better these countries outputs in terms of price and quality or face being taken over by them through financial foreclosures. New Zealanders need to pledge themselves to productive work, making improvements and being successful. *Instead: pass me a beer mate and turn on telly, I want to watch sport.* Too many think like this. We have social and economic imbalances which will be rectified by our trading partners in coming decades if we don't arrest them ourselves.
6. **Government application of retrospective legislation.** This happened with the Legislation passed in September 2008 which came into effect on 1 January 2008 effectively charging forest owners \$13,000 per hectare if they felled their exotic forests and converted them back to farmland planted prior to 1990.<sup>Ω</sup> It devalued forest land values and forest owners lost capital equity. It affected investment decisions made more than 20 years previously and it is very poor Government Miss Clark. It scared away exotic forestry investors. It links to the Emissions Trading Scheme (ETS) in placing forestry in the forefront of carbon sequestration when the dominant greenhouse gas emitters (agriculture) receives advancing implementation timelines (2013 to 2015) and slowly stepping up commitment levels for greenhouse gas removals. What a difference a farmer MP made driving a Fergusson tractor up Parliament steps to stop the FART tax. To encourage investment, Government must be even handed to all land users and industries and not just its voter base.
  7. **Inconsistent application to providing for retirement by politicians.** In my parents' day, people paid two shillings and six pence in the pound to a retirement scheme. This was halted but different approaches emerged: Cullen fund, Kiwisaver, National provident Fund etc. Some became political footballs, and failed. Others may still do so. The message is clear – provide for yourselves New Zealanders and don't rely on the Government!
  8. **Inconsistent messages from politicians on what to invest in and where.** The public's investment agenda is different to politicians who, in some cases, appear more focussed on themselves than the public they serve. This seems to happen with many politicians around the world over numerous generations. Politicians need to be kept out of long term investments as they tend to corrupt the funds they are supposed to steward. Examples are: go green, ethical industries, social engineering, cronies on the governing boards – jobs for the boys etc. We need intergenerational political commitment to excellence, fiduciary responsibility, and growth, not to self interest.
  9. **Lack of an informed New Zealand public on financial issues.** We bemoan the low standards of literacy and numeracy in schools, yet financial literacy is poor as well. Too many people owe too much money offshore, for too long, and won't, don't or can't do anything to help themselves do anything about it. We have to

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<sup>Ω</sup> Climate Change Response Act, 2002, amendments and associated legislation.

improve financial literacy to improve national savings and reduce national debt. *But why do this when I can declare bankruptcy easily, change company names, dodge the regulators, invest ill gotten proceeds offshore, live offshore, restart another bogus business in New Zealand in a few years time and everyone will have forgotten about me?* This applies to people before the Courts in Auckland at present. There needs to be a register of named and photographed individuals who are prevented from trading until all their debts are paid and they can prove that they will act ethically. Bryers, Hotchin, Watson, and Petriciovic do not appear to have acted ethically. A more financially literate public, aware of how these men had performed previously, may not have been snared a second time by some of them! These men are the tip of the iceberg. We need a culture shift to greater understanding of investment than we do of rugby, cricket, horse racing, or beers.

10. **Property and land is grossly overvalued in New Zealand.** These assets are overpriced relative to their ability to produce goods and revenue to service the debt need to purchase them in the first place. The statement applies to farmland, domestic properties, and commercial buildings. All are getting a market driven revaluation at present. It's very slow though. If it was faster, it would be a crash. This would loose votes, drive poverty, crime, and despair. It should not have happened in the first place, was obvious when prices of commodities were noted years ago, encouraged speculation and drove genuine investors (savers) away to safer investments in Government Bonds and offshore. Some chose finance company investments but we all paid that price in underwriting failures. Better linkage of the resources that produce wealth to the values received for those products should occur so that speculative investment is reduced. For every dollar made, someone could loose one. There are some bubbles still to burst in New Zealand!

These are ten points for improvement.

My approach is not to rely on the Government for anything to do with investment for my or my family's future, as major parties and previous politicians have made a poor job of it. A 28, I elected to go it alone and got started at that time. I would not like to participate in any Government required scheme for the reasons stated previously. Government needs to win over the public to invest by sound actions and not coercion, by leadership and not by blaming the other party, by acting with integrity and not passing retrospective legislation, by acting with equity and not with voter favouritism, by having intergenerational political commitment to New Zealanders welfare and not just their own for their duration of perquisites and power. If you can achieve these simple things, then you have made progress – for the moment.

Yours sincerely

Paul N. Baker.