

# Discussion of “New Zealand and the Woody Allen Syndrome” by Sebastian Edwards

*John McDermott*

*June 2011*

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# Overview

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- Summary
- Comments
- longer term perspective  
(or an official's unofficial story)

## Main points of the paper

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- Focus on recent business cycle
- The unofficial-official story
- Analysis of the real exchange rate
  - commodity prices 🍑🍑
  - interest rate differentials 🍑
  - currency wars 🍑
- Services' productivity & international competitiveness

## The unofficial-official story

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### Loose fiscal-tight money from 2006

- Capital inflows (financed C/A -8.8%)
- NFL reached 90.3%
- Funds intermediated via the banking sector
- House price increased 180%
- High consumption/low savings
- Overvaluation of the real exchange rate
- Stagnation of the tradables sector
- Adverse implication for growth

## Policy Actions (SWG)

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- Fiscal surplus 2% of GDP
- Greater transparency in public accounts
- Tax reform that reduce distortions
  - Indexing some tax items by inflation
  - Broaden the tax base
  - GST 17.5%
- Auto enrolment for KiwiSaver
- Develop an Annuities market



# Assessment

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- Fiscal consolidation
- Labour productivity in agriculture
- Insurance framework

# Fiscal consolidation not everything

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- Short-term perspective
  - ⇒ NZ'ers think fiscal consolidation can solve NZ's problem?
- Late cycle fiscal-monetary tensions
  - ⇒ capital flows
  - ⇒ housing boom

BUT housing boom dates back to 2002



## Services productivity

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- Non-tradables used to produce tradables
- Improving non-tradables' productivity thus a major challenge
- Reduce services' inefficiencies
- Agree but conclusion can be extended to reducing inefficiencies more generally.

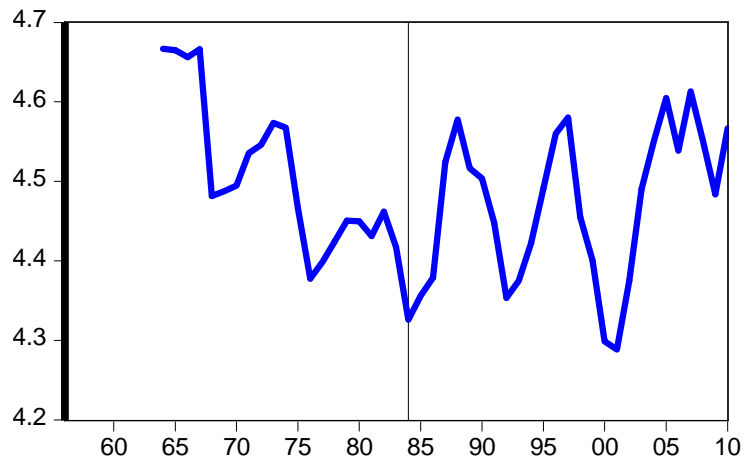
## Agriculture productivity

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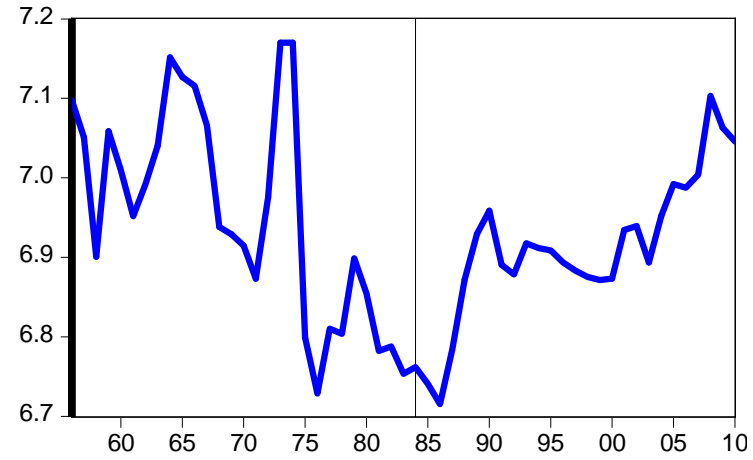
- Productivity in agriculture higher in NZ than Australia but lower in other sectors
- Unlikely
  - would result in large flows of real resources into the high productivity sector to equalise factor returns with productivity
- Findings come from the differences in agriculture in NZ and Australia
  - For NZ dairy high value land and new capital equipment (milking sheds)

# A longer term perspective

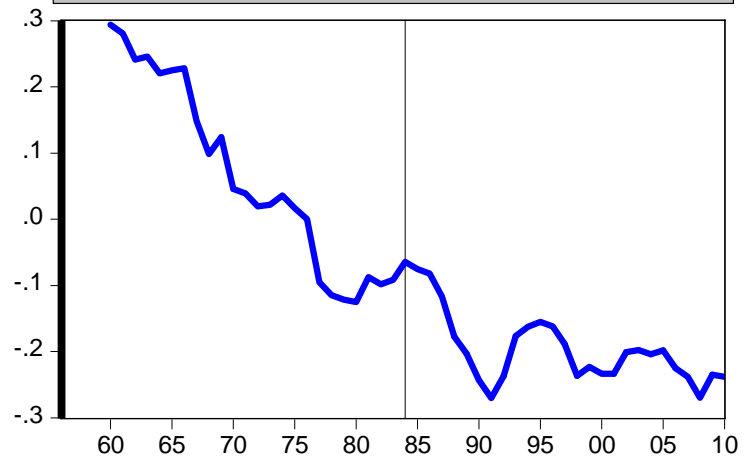
Real Exchange Rate (logs)



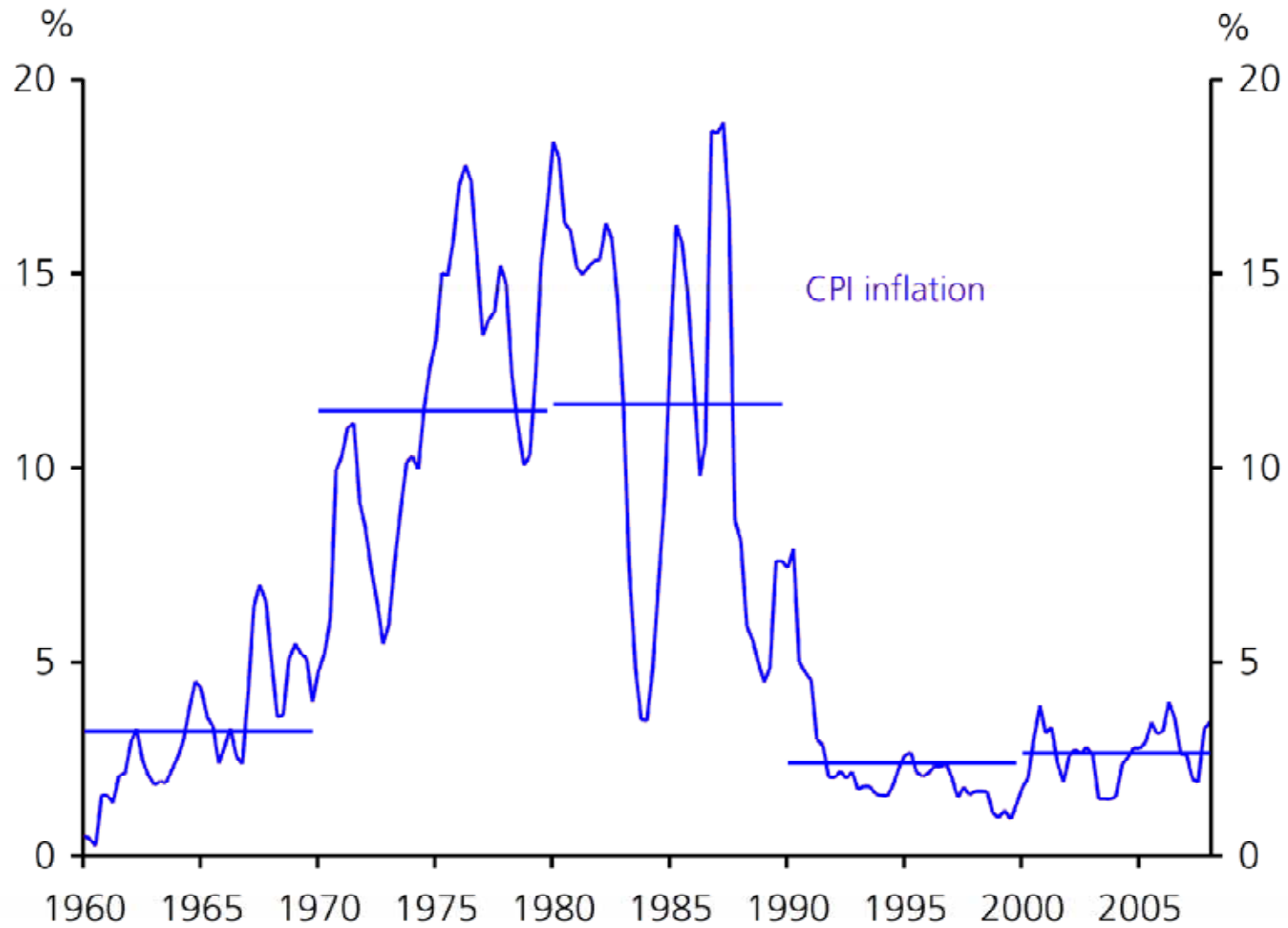
Terms of Trade (logs)



Productivity Differential (logs)



# A longer term perspective





***End of presentation***