The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

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I agree with the change to the high-level policy objective to "protect and enhance the stability of New Zealand's financial system".

As for the other objectives, I agree with all proposals in Category A. I would speak to B5- Ensure credit is allocated to product uses. This was not popular with previous submitters, but I think this should be reconsidered. Adair Turner in his book (Between Debt and the Devil) notes most bank lending today is for the purchase of pre-existing (largely property) assets and not for enhancing the productive parts of the economy or for supporting innovation. He (and others) advocate various structural reforms to direct capital away from property speculation and towards uses that will better benefit society. NZ's property market (homes and farms) has become overheated due to domestic bank lending and unrestricted foreign investment and capital movement: both direct purchase of a property and private placement of bank debt with large off-shore lenders. I realise that there have been recent reforms in both these area by the Government and the RBNZ, but I still think we follow the BIS guidelines too much regarding lending capital requirements.
I agree with the other Categories, but particularly the creation of a deposit insurance program (C2) and support sustainable growth (F1). Regarding F1, I think you mean not having 'boom & bust' problems, which is good. But I view sustainable growth in environmental terms as well. So I fully support adding climate change as a consideration in regards to both banks and insurers. APRA is doing this as well. We need to discourage further investment in fossil fuels and recognise that these will become stranded assets in the future. Bank will need to discount the value of such loans and realise that such activities will increasingly not have a social license and be unable to repay their debts. Insurers will face increased costs due to sea-level rise, greater storm damage and fires.

The perimeter proposals seems a good balance. However, I am concerned about foreign IT sector developments and banking (and money itself) being commandeered by innovations such as Apple Pay and Facebook's currency idea. I am very concerned about powerful foreign companies gaining undue control of our financial system. Innovation is fine, but let's keep it in our control.

Yes, I am very pleased to see this development and the range limit seems good. I think a higher range would expose the public funds to excessive levels and exacerbate the moral hazard issue.

The GFC showed that the lack of good regulation abroad can create great market distortions and risk to capital markets specifically from derivatives such as Mortgage Backed Securities, Collateralised Debt Obligations and who knows what financial 'innovations' or improper regulation (in financial sectors or tax forms or other areas). Money flows into NZ because it is a safe haven, so foreign distortions quickly find their way here. I would like to see more recognition of this problem and what we can do to restrict this unwanted and damaging effect. In other words, the contagion can come from abroad.

A lot of this was highly technical and was beyond me. Though it does seem that the Act needs to be updated considerably, I don't have the expertise to judge among the various proposals. However, there are a few general points I wish to make about how I view things and you can make of them what you will.

RBNZ Tools - The LVR is a start, but I want the RBNZ to have the DTI…should have had it years ago. It's too late now as the horse has bolted and house prices have doubled twice since 2000…but it should be there for future use.

There should have been great use of sectoral capital overlay to increase the capital requirements for lending that is simple the purchase of pre-existing assets (basically property). Such loans may be viewed as lower risk, but they distort the market and if taken to excess, endanger the economy over all and lead to wealth inequality and social problems. Again, that ship has sailed, but we need to learn from this failure.

RBNZ doesn't have enough tools and is forced to overuse the OCR. In the run-up to the GFC. several other countries kept their interest rates too low for too long (US, EU) or in Japan's case was trying to recover from excesses of their 'balance sheet recession" following their 1980's asset bubble. At the same time, the NZ OCR was set very high, trying to slow down an over-heated property market. That just made more capital flow here, chasing our higher rates - which then flowed into more property loans. It was counter-productive and put our currency up, thus hurting exporters. At the time, the RBNZ didn't have other tools like the LVR, DTI or capital/currency controls to stop the money coming here. That needs to change.

Now we also see debt placements from our banks to large private off-shore interests. I suspect a large part of this money is coming from the trillions built up in tax havens rather than being repatriated to home countries and paying tax. This debt purchase then goes to over-stimulate our property market. The 2010 liquidity policy has helped rein in short-term wholesale funding, but longer term foreign debt is exacerbating the distortions in our property markets. This needs to be addressed.

Supervision and Enforcement - The 'light touch' regulation seems out of touch with the GFC experience in other countries and the recent failures of director attestations have shown banks' failures to adequately regulate themselves. I think it's time for more direct supervision. As Reagan said during the START nuclear arms reduction treaty, "Trust, but verify". Certainly regular on-site inspections should be done and perhaps continuous monitoring for the 5 big banks as they are such a systemic risk. Some sort of improved regulatory standards are definitely needed.

Fines typically fall on the shareholders, not the executives who are actually to blame. They often get a golden handshake. This is not an effective deterrent. Something like the BEAR framework would be better.

Climate Change - As I mentioned in my submission 2A, I fully support the development of more explicit climate change objectives as part of prudential regulation.

Balance Sheet - I am very concerned that the RBNZ (and other major reserve banks in the world) keep lowering interest rates, presumably trying to meet their inflation target and stimulate the economy through credit. They are ignoring that technology is drastically changing the cost and choices that customers make (so little inflation) whilst also ignoring demographics. The 'baby boomers' are a large part of the population and they are seeing their income sacrificed in a failed attempt to stimulate borrowing even though debtors are largely at their limits and companies are not going to borrow for new investments as they see the economy slowing down. We no longer have a business cycle, instead we have credit cycles. Monetary policy is being misused in my opinion.

I don't think the world's reserve banks get it, that their policies are part of the problem, not the solution and the RBNZ seems to want to follow their failed actions. How many times has QE been tried in other countries? Has it worked? I don't think so. Yet they keep trying it, hoping for a different result? Why would that happen? Isn't that a definition of insanity? So we now have the lowest interest rates for the longest time in history and massive QE (which has mainly created asset bubbles). The central bankers have painted us into a corner and they are trying increasingly desperate measures-ZIRP & NIRP. Why would those policies work here? Why should we be following them?

I would prefer to see a people's QE, but not helicopter money. Australia did that during the GFC and my understanding is that a lot of flat-screen televisions were sold. That was great for stimulating Harvey Norman and where-ever the TVs were made, but after the sugar hit wore off, then what?

Instead, let's try helping those in the lower 2 quintiles with a UBI and a job guarantee program. I'm in the top quintile, so for me a UBI will be sucked back in taxes or go to the sharemarket, but the poor will spend it on basics, on their kids and on local goods. A job guarantee is automatically counter-cyclical.

So I support the RBNZ using it's balance sheet function in different ways, but if we're talking about negative interest rates and buying debt instruments from the financial markets to bring down the yield curve, no thanks.

I support the RBNZ being able to use its money creation to purchase debt directly from the Government (as Bank of Japan has done), thus supporting fiscal policy to stimulate the economy more directly rather than through trying to entice people to take on more debt (which doesn't work in tough times). At the moment, but NZ Government's balance sheet is in a very good position and and fund fiscal stimulus itself, but should that change the RBNZ should definitely be able to put Government debt on it's balance sheet.

Crisis management - In the 2a part, I said that I fully support the proposed deposit guarantee and putting depositors at the front of the queue. However, it seems to me that in the GFC, we saw 2 models. 1) The Yanks used a massive amount of public money to bail out the bankers. The TARP programs transferred "troubled assets" to the government books and cash to repair the bankers' balance sheets. Helping "Wall Street" was supposed to help "Main Street". Well it didn't work out so well, did it? 2) In Europe bank bail outs were coupled with austerity…that was even worse.

I would like to suggest 2 alternatives: 1) The Air NZ model. The Government renationalised the company, took over the liabilities, previous shareholders and executives were shown the door. 2) “Let ‘em fail” I heard about this when the TARP program was starting in the US. Instead of the Government using newly created money to bail out failed banks, use that money to create new public banks with fresh balance sheets and bring the depositors over from the failed institutions. That would really teach a lesson about prudence. Both options would use the deposit insurance program.

Public banking has been shown repeatedly to be better for a society. The crisis is the opportunity to renationalise the banking system here and stop the $5+ billion that leaves this country each year.

A ‘Debt Jubilee” should also be considered as part of restructuring in a crisis. Repair the people’s balance sheets as well. I wonder how much more quickly the US, EU and Japan would have recovered if they had tried that instead.

It seems to me that during the GFC, Americans and Europeans were told TINA (there is no alternative), you have to protect the financial system by bailing out the banks. Well I don’t believe that. There are alternatives. We should learn from the experiences of others.

Funding - Financial institutions should be charged a levy to support the RBNZ.