



ASK ME ANYTHING:

Oliver Hartwich

Economist Dr Oliver Hartwich is head of the country's newest libertarian think tank – The New Zealand Initiative. The lobby group was launched in April last year as a successor to the Business Roundtable and the New Zealand Institute. It made a splash with its recent report, *New Zealand's Global Links*, written by Roundtable alumnus Bryce Wilkinson. Under the leadership of Dr Hartwich, a German expatriate who arrived in New Zealand via Australia, the NZ Initiative has also been outspoken on issues such as the superannuation age, the Greens/Labour power policy, the Maori electorates (which he thinks should be dumped) and MMP (ditto). Other areas of interest including housing affordability, competition law, transport, infrastructure, local government, welfare reform and global economic issues. He answered 48 readers' questions.

Related links on NBR ONLINE

- Losing control of our economic sovereignty
- New report exposes foreign investment, debt myths
- Don't fear Asia – it's Aussies who are taking over NZ
- How serious are the Greens about their energy proposal?
- Leaving Australia for New Zealand
- Superannuation: fix the super roof while the sun is still shining
- Stock markets are human too – especially when the footy is on
- Dump Maori seats and MMP says report

Amanda Palmer: The NZ Initiative's Global Links report points out: It is Australians who have largely been taking over New Zealand. In the year to March 2012, they own 55.8% of foreign investment – up from 31.5% in March 2001. In March 2012, Asian investors owned just 3.1%. The general public only seems to be stirred on foreign investment when there's a racial edge. Has the whole issue become one of sociology rather than economics?

by Oliver Hartwich: There is certainly a racial element to it. In his book "The Myth of the Rational Voter," Bryan Caplan has written about this. We tend to see foreign investment in a more favourable light when it comes from countries that are culturally similar to us. From an economics perspective, this should not matter at all. So yes, the anti-foreign attitude is at least in part a sociological problem.

by Anonymous: If you were finance minister, what would you do with age that superannuation kicks in? What are the consequences of waiting?

by Oliver Hartwich: I would increase it gradually. In fact, I have recently written an NBR column about it. By waiting too long, we will end up in a situation like Europe in which drastic changes have to be implemented quickly when it's almost too late. It's better to start the reforms sooner and spread them over a longer time to make the adjustment easier. It will have to be done one day anyway – but it takes political courage to do it.

by Anonymous

Do you think Australian's don't know how lucky they are in escaping the global financial crisis? They often seem spoiled, moaning about a slowdown when the rest of the world has suffered recession or outright financial crisis.

by Oliver Hartwich: Australia has always been "the lucky country" – but at least in previous times, the Australians knew it. What really irritates me about Australia is their complacency. They had historic terms-of-trade, a mining boom, they are in close proximity to the world's fastest growing region – and yet they manage to see all of this not so much as an opportunity but as a potential threat. Australia used to be a country that had a positive outlook and a "can do" mentality. I am afraid the Australians are losing this mentality. I wrote about it when I left Australia last year: www.nbr.co.nz/article/leaving-australia-new-zealand-117575

by Ian Wilson: Looking at it in purely economic terms: would New Zealand be better off if there was a single

Australia-NZ currency?

by Oliver Hartwich: If you were to have monetary union between Australia and New Zealand, you should also include Papua New Guinea. Every monetary union needs its Greece. More seriously, the problems with monetary unions are on display in Europe and I don't want to see a repeat of Europe's problems in Australasia. We are better off with the flexibility that national currencies offer.

by Roger Horrocks: Did you buy Mighty River shares?

by Oliver Hartwich: No, I made paying off our mortgage my top priority. I'm a relatively conservative German when it comes to my personal finances and I hate being in debt.

by Roger Horrocks: What's wrong with the Labour-Green proposal for a single-buyer model for wholesale electricity – and do you think they could actually implement it if they win the next election?

by Oliver Hartwich: What I object to is not so much the policy itself (although there are enough reasons to be concerned with it) but the way in which it was announced. By shocking markets and investors with political proposals you are sending a dangerous message to the world: Property rights in New Zealand may not be as secure as we thought. One of my favourite German economists, Walter Eucken, once said that predictability is one of the most important characteristics of good economic management. The Greens/Labour proposal came out of the blue with no previous consultation, and that alone makes it bad policy. Whether they will actually implement it? Hard to say. Properly implementing their scheme may take longer than one parliamentary term and it will be challenging on a number of fronts (legal and technical questions). I have doubts that the policy will be implemented exactly as announced.

by Anonymous: Should Bill English have set an arbitrary date for returning to surplus? What's the No 1 thing he could do in the budget to ensure a return to surplus?

by Oliver Hartwich: It's good to have goals. In the end, any date for a return to surplus would have been arbitrary – there is no objective date for such a political goal. I believe the most important long-term issue for New Zealand's public finances is making them "demography proof." This means increasing the super age but also thinking about the other costs associated with an ageing society. Although the government's return to surplus is most welcome, in the long term it would almost be meaningless if these demography-related issues are not simultaneously tackled. The budget should not be about winning the next election. It should be about making sure that future governments also have a chance to balance the books.

by Lenny Brown: What's your take on the Auckland Unitary Plan? What do you think should be done about Auckland house prices?

by Oliver Hartwich: It's more important to design a good planning system and a better system of local government finance than to have one grand plan and expect it to solve all our problems.

Sadly, our current planning system and local government finance arrangements are deficient because they do not provide enough incentives for municipalities to grow and pay for the necessary

infrastructure upgrades. As for Auckland house prices, it is (of course) a question of demand and supply. The demand is there and there is very little we can do about it. So we have to find ways of increasing supply. In my previous jobs, I have suggested to learn from other countries that have historically managed to keep their house prices stable: www.policyexchange.org.uk/publications/category/item/bigger-better-faster-more-why-some-countries-plan-better-than-others. The New Zealand Initiative is currently working on these issues as well and will launch a report on the question of housing affordability next month. Stay tuned.

by Anonymous: Why have you described MMP as undemocratic? What system would you like to see New Zealand using?

by Oliver Hartwich: It is undemocratic in the sense that it's not a WYSIWYG [what you see is what you get] system – you don't know what kind of government you will get when you cast your vote. In the end, government policy is decided after the election by the parties forming a coalition government. As a voter, I would rather like to know before the election what the parties propose to implement afterward. Mind you, as a German I feel terribly sorry that New Zealand copied this flawed system from us. Couldn't you have copied our motorways instead? As for my preferred system: Two chambers. The lower house elected under First-Past-the-Post, the upper house under a representative electoral system. I have written about it here: www.cis.org.au/publications/policy-monographs/article/1746-superseding-mmp-real-electoral-reform-for-new-zealand

by Anonymous: There seem to be two schools of thought on the Mighty River Power float:

1. That having special allocations of shares for small NZ investors, and offering bonus shares, was good because it brought more "Mum and Dad" investors into the sharemarket
2. The "Mum and Dad" investor provisions were a political stunt, and meaningless in the medium/long term since small investors can sell their shares to an offshore buyer.

Which school do you belong to?

by Oliver Hartwich: The second school. In the end, the shares will end up with whoever wants to buy them. Having said that, it is good to have more "Mum and Dad" investors. The more people invest in shares, the more will take an active interest in the direction of the New Zealand economy.

by Adam Smith: Surely the simple answer to the overheated housing market, and Kiwis' love of property over shares, is a capital gains tax?

by Oliver Hartwich: No, that's perhaps a second-best solution. The real solution to a housing crisis is to build more houses. If you have a shortage of anything, the best thing you can do is produce more of it. And that's how markets usually work. We need to find ways to make the housing market more responsive to price signals.

by Adam Smith: If Karl Marx was graduating from university today, into modern Germany, do you think he would be a socialist?

by Oliver Hartwich: No, certainly not. He would only need to study some history to find out what policies were implemented in East Germany in his name to be

cured of the idea of socialism forever. Germany was an interesting real life experiment: Two countries with similar people and the same culture; one practised a market economy, the other one tried socialism. Having seen the end result of both these experiments, it is hard to understand how anyone can still believe that socialism is the answer. Unless you think Karl Marx had only been misunderstood and socialism was a great idea implemented badly. I don't buy that argument.

by Euro crisis: If you were in charge of the EU, would you dump the common currency?

by Oliver Hartwich: If I were in charge of the EU, I would have never introduced it. It was a bad idea, it never worked, and it cannot be made to work. See also: www.oliver-marc-hartwich.com/publications/fire-and-ice-on-europe-s-debt-march The Europeans should know by now that monetary union does not work but they are still trying to save it by all sorts of ingenious schemes, most of which involve printing money. It's Einstein's definition of insanity: Doing the same thing over and over again and expecting different results.

by Anonymous: In his collection of essays *Eat the Rich*, right wing commentator PJ O'Rourke praises socialist Sweden. His message seems to be, institutions you can trust and good governance is equally or more important than how free the market is. Do you think that's true?

by Oliver Hartwich: Similar comments were made by former IMF director Vito Tanzi in his latest book. My take on this: Why would you see "free markets" and "good institutions" as mutually exclusive? Can't we have both? Just imagine how much more prosperous a free-market Sweden would be.

by Anonymous: Do you support sin taxes on alcohol and cigarettes? Would you like to see one added to high fat foods?

by Oliver Hartwich: No. It's not the role of the state to prescribe any preferences to its citizens. That's old-fashioned paternalism.

by Chris Keall: Do you buy Lotto tickets?

by Oliver Hartwich: Lotteries are a special tax on the mathematically challenged. I only buy lottery tickets when my wife thinks we ought to be lucky this time :-)

COMING UP ON ASK ME ANYTHING

- Today, 1pm-2pm: The team from Grant Thornton answer readers' questions about yesterday's budget.
- Today, 3.30pm-4.30pm: Auckland deputy mayor Penny Hulse and Auckland Council manager regional and local planning Penny Pirrit front on the city's controversial housing plan.

Readers can now access previous instalments of Ask Me Anything by clicking the AMA tab on the menu bar at nbr.co.nz or by bookmarking www.nbr.co.nz/ask-me-anything.



SEE MORE

www.nbr.co.nz/ask-oliver

