Auckland's anomaly: restoring prosperity to the regions

PUBLIC POLICY
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The largest city is heavily subsidised by the rest of the country

One of the country's biggest problems is the lack of well-designed, integrated policies within a sound strategic framework and oriented to the best interests of citizens – increasing their living standards with a reasonable distribution.

Instead, we have an ad hoc patchwork of often poorly designed policies, oriented to political objectives (re-election). The public service only occasionally offers relevant policy analysis and advice while commentators often dance on the head of a pin and ignore the fundamentals.

Consequently, key economic indicators including GDP/capita, exports/capita and productivity have been disappointingly weak. Instead the electorate is seduced by quantity (GDP) arguments, while the crucial quality (GDP per capita) perspective has been obfuscated.

Consequently, living standards growth has been low while a range of economic, social and environmental problems are escalating rapidly.

Immigration is an excellent example. It is sold as "more is better" because it means employment growth and higher spending on housing, public infrastructure and services. This increases GDP, which is a political positive (rock star economy). But to add value immigration must increase exports and productivity per capita or bring particularly valuable capability to the community.

Excessive numbers of low-skill immigrants do not satisfy the value-adding criteria. The consequent housing crisis is disingenuously ignored and so is the emergence of other economic, social and environmental problems, which will have serious consequences for generations.

So, let's be clear on the fundamentals. Exports and inbound tourism (foreign exchange earning "tradable" activities) are the critical foundation of the economy and living standards. They fund the many critical imports for a small economy with limited domestic capability to supply goods and services competitively.

Thus, "exports" per capita is a critical indicator of potential for prosperity and wellbeing. Governments recognised this by targeting a 10% increase in the exports to GDP ratio but weak policies have thwarted success and non-tradable activities continue to dominate, acknowledging the recent fortuitous increase in tourism.

Adds little value

Importantly, though, most exports come from the regions, which are also the main tourist destinations. But, and here's the anomaly, the regions struggle in terms of costs, living standards and lifestyle while urban areas (particularly Auckland) prosper, assisted by a tax-free housing boom.

Auckland actually adds little value. It has low GDP/capita (69 of 89 OECD metros); is inwardly (non-tradables) focused (consumption, real estate and domestic services); and it's not a centre of export excellence or innovation (Auckland Unitary Plan).

It has a large population but contributes little to exports and tourism, so in terms of foreign exchange earnings per capita it is heavily subsidised by the rest of the country.

Auckland's rapidly growing population (immigration again) means an increasing need for housing and public infrastructure and services. So, the subsidy increases as Auckland's growth reduces, not increases, exports per capita.

Unfortunately, the housing crisis and other problems mean political pressure to commit additional resources ($1 billion, recently announced) to address Auckland issues. But the fundamental problem is excessive immigration, which itself has a negative impact on living standards. The government simply adds to the national detriment by throwing more money at it. There is no upside here, just crisis management.

Fundamentally, Auckland is about quantity, not quality; GDP, not GDP per capita.

New policies needed

This underlines the need for a coherent, integrated, quality-based approach to policy within a strategic framework. This starts with living standards and includes economic growth, health, education, welfare, population and the labour market plus the capacity of the environment and how it is best used in the national interest. Three months and 20 or so pages, plus supporting analysis, should nail this – but don't hold your breath!

A key issue is to recognise the primacy of foreign exchange earnings and remove the subsidy to the spenders to the benefit of the regions. Unfortunately, the overvalued New Zealand dollar also favours spenders over foreign exchange earners, further distorting price signals. It is necessary to get these price signals right.

Farmers are criticised for environmental damage and are asked to remedy it on top of often higher rural living and operating costs. Meanwhile, Auckland's growth is based on a mirage of subsidised living standards. This means increasing demand for land, often displacing high-quality agriculture; water, which now comes from outside the region; energy; waste disposal; greenhouse gas emissions; and fiscal pressures. All of this with minimal contribution to increased exports and other foreign exchange earning activities. I understand the network/innovation arguments but see little evidence of their national benefit.

A large wealth shift is needed from urban areas to rural to compensate for the export subsidy and reset the price signals. A tax on Auckland property would be a good start, both to compensate the regions and stimulate their economies, their tradable output, living standards and environmental improvement activities.

A sharp drop in the value of the dollar would help as would more aggressive and effective leadership from rural interests. Foreign currency earners might also explore alternatives to financial market and banking arrangements. In these days of innovation and disruption there are always options.

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