

TALKING POINT



BREXIT'S LESSONS

Theresa May and the European Union (EU) have agreed to a Brexit withdrawal agreement. The next step requires the approval by the UK parliament with a vote expected by the middle of December. This is not a fait accompli however, as many of those that May needs to persuade are still unconvinced at this stage.

Brexit is due to take effect (with an agreement or not) from the end of March 2019. The text within the withdrawal document proposes a transition period through until the end of 2020 which, if approved by the UK parliament, would ensure the status quo in trade, movement of people and regulatory oversight throughout that period - something that the Brexiteers object to.

While the UK grapples with this unholy political mess, which got a bare majority in the referendum (52% for Leave versus 48% for Remain), it's worth reflecting on possible lessons for the rest of the world.

In the last issue of Forsyth Barr Focus, we discussed the rise of neo-Luddism and the impact globalisation, technology and hi-tech transformation of economies are having on wages and in particular unskilled workers. Rather than smashing machines, as happened in the past, the disgruntled and 'left behind' have expressed their anger at the ballot box.

Politicians in all countries (except maybe Donald Trump) failed to recognise the median voter shifting left, and the large-scale impact that immigration was having on low paid service sector jobs.

Successive governments have embraced immigration as a way of generating 'growth' within the economy, which means growing the labour force, rather than addressing the underlying problems in society.

Instead of investing in training, technology, and equipment to raise productivity and wages, and programs to reduce social inequality, the easy solution has been the importation of cheap foreign labour.



The more liberal the politics and jobs market, the easier it has been for immigrants from all over the developing world to move and work in jobs, that often pay a premium to what they might have earned in their own country.

In New Zealand, looking ahead to 2019, we have a significant shortage of teachers. As living costs increased, particularly housing and transport, without appropriate recompense in incomes, teachers have left the profession or have become less mobile.

While the teachers union continues to negotiate higher wage scales, the government has responded by initiating an overseas recruitment drive with 550 already screened and ready to hire for next year.

The same is happening in the health sector, with large numbers of health professionals recruited from overseas to fill nursing, doctors, specialists and technical positions throughout the public and private healthcare and aged care sectors.

In the UK, the tendency to import cheap labour rather than address underlying structural issues has been going on for over 30 years; an aftermath to the coal miners strikes that were defeated in 1985.

Rather than reconciling policy differences and reforming the industrial midlands, both Conservative and Labour governments subsequently resorted to welfare, and expanded social security programs.

Borders were also opened to cheap labour from places like Poland, Czech Republic, Slovakia, Hungary, Slovenia, 'the Balts', Greece, Italy, Spain, Portugal and latterly Bulgaria and Romania, as each country was successively admitted to the EU.

If foreigners want to work as nurses, teachers, farm workers and in hospitality, there is little incentive for businesses and governments to invest in more productive technology or training for locals to boost productivity and incomes. Incentives to upgrade capital expenditure and innovate diminish along with an economy's long-term growth potential.

For locals, shut out of the same jobs because they either don't want to work for the wages on offer or the barrier to work due to the social security safety being too high, voter revolt has been the outcome.

Here in New Zealand, there has been minimal policy differences between National and Labour governments since the significant economic reforms in the 1980s. The core beliefs still seem to be balanced budgets, low fiscal net debt, zero net foreign debt and an independent central bank with a core focus on price stability.

For most of the last three decades, the government of the day's focus has seemingly been on reducing net debt while the central bank has been diligent in getting core inflation down to within the 0-3% band and keeping it there.

There has been very little, if any, policy initiatives around productivity, technology, lifting relative incomes and becoming more competitive globally. Monetary policy has been the tail wagging the dog with a fundamentalist approach to maintaining circa 2% core inflation. This has resulted in tighter fiscal policies on average than our trading partners, with higher real rates and a stronger relative currency. As a consequence, our global competitiveness has diminished and domestic incomes have languished.

Net inward migration remains a potent input to the supply of labour and, as a consequence, the incentive to raise incomes remains low.

While the RBNZ has now adopted a more flexible policy stance around inflation, suggesting interest rates will stay lower for longer in the cycle, perhaps it's time for a bi-partisan approach in parliament to review the policy mix with an eye to future growth, productivity, rising incomes and national wealth. Our fiscal balance sheet provides the opportunity for significant reform.

The alternative is likely to be a further concentration in wealth, ongoing decline in productivity and voter revolt. New Zealand is a relatively passive society, but Europe is showing us what happens when neo-Luddites believe society has become one of winners and losers.



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