THE ECONOMY

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Thanks to the CAFCA Committee for inviting me to speak today, and congratulations to CAFCA for getting to 50. I was looking back to a similar talk I gave to CAFCA's AGM 15 years ago on its 35th anniversary. I mentioned then that the Director of the SIS had complimented us on still being in existence when most of its other targets had long since disappeared into the history books (and some not even into those). Presumably the SIS would be even more surprised now. In this talk I will talk a little about the current economic situation, sketch the state of foreign investment in Aotearoa, and reflect briefly on CAFCA's successes and failures, but mainly I want to talk about the longer-term outlook for Aotearoa and suggest some ways forward.

The Current Position

The economy of Aotearoa is not in good shape. I mean that both in terms of the usual measures that economists tend to use and in human terms. Our economic statistics inform us that the annual output of the economy – what it produces as measured by gross domestic product (GDP) – was lower in the year to June 2025 than it was two years ago in 2023. But less discussed by economists is that in human terms we are seeing great distress seen, for example, in homelessness, use of foodbanks, joblessness, poverty and people leaving the country.

In economic terms the situation is on some measures comparable to the Global Financial Crisis. But in the Global Financial Crisis the recession was primarily driven by global forces, while in the present case, most other countries have not gone into recession after the pandemic except where there were local drivers such as the impacts of the Ukraine War in Europe. Even there the recession has mostly not been as deep.

In my view, like 19 others with economic expertise who signed a letter to the Government in September 2025 (Ahirao et al., 2025), present policies of cutting back spending in many areas, prioritising debt reduction, laying people off, stopping investments and unclear commitment to future investments, squeezing benefits and the minimum wage, and near complete halt in State house construction have made the recession created by monetary policy worse. But you probably know all this.

Structural Problems

This current distress shakes an economy whose structural problems make lasting solutions very difficult. The description of these problems is well known. We have poor export performance for a small open economy. Exports are still heavily reliant on land-based commodities like milk powder and logs rather than products with higher value added in Aotearoa. This structure is reinforced by trade agreements which encourage producers of these low value exports – without increasing our export intensity – and make it difficult to change our economic structure to diversify and move into higher value production. I will come back to this.

We have poor productivity performance – meaning that the value added to the resources that firms and workers use in producing goods and services is low relative to other high-income countries. That leaves less available for higher wage rates and living standards. The institutions which should ensure that higher value is actually shared with workers are degraded. Unions and collective bargaining have been deliberately weakened.

You may think this is obvious, but economists of the type that designed the neoliberal policies of the 1980s and 1990s, who have dominated economic orthodoxy since then, don't agree. But thinking is changing. Many now recognise deunionisation as a cause of increasing inequality, and that increasing productivity does not automatically mean the financial benefits flow through to workers.

The winners of the 2024 Nobel Memorial Prize in Economics, Daron Acemoglu and Simon Johnson, conclude from their study of hundreds of years of history that: "There is nothing in the past 1,000 years of history to suggest the presence of an automatic mechanism that ensures gains for ordinary working people when technology improves. On the contrary, there are plenty of episodes in which technological breakthroughs were associated with no improvement – or even significant deterioration – in working conditions and living standards for most people".

"Better technology offers the potential of better lives for many people, but only if it creates sufficient new tasks requiring human expertise *and* workers have enough power to demand a matching increase in compensation. Left to its own devices, the 'market' often delivers great wealth to a few lucky investors and executives and not much for the rest of us" (their emphasis, Acemoglu & Johnson, 2024, p. xii).

Low Wages Have Become A Vicious Circle

Because wages are not higher, employers have no incentive to invest in the technology, management expertise and production processes required for higher productivity. Our economy is overweight in low-wage sectors such as tourism, agriculture and forestry. Some forms of agriculture, particularly dairy, are at their environmental limits, though many in the industry refuse to recognise it. Other sectors feature migrant exploitation (such as in horticulture) and dangerous working conditions. At the same time, excess profits – what economists sometimes call economic rents – are rife, as work by Geoff Bertram and me is showing (Bertram & Rosenberg, 2025).

Firms are not investing enough in production which would provide good jobs, provide needed services like electricity, export income or substitute for imports and the Government is not investing enough in infrastructure and public services. Too much money is going into inflating the price of housing, making buying a house unaffordable for an increasing proportion of our population.

We have high quality education institutions – though vocational education and training is being shaken by constant change and lack of clear direction – but we lose large numbers of the graduates from these institutions overseas. I was startled to read recently in a Treasury publication that "between 25% and 30% of everyone born in New Zealand is living overseas by age 30, and emigration rates are even higher among those with tertiary qualifications" (Long Term Fiscal Statement 2025, fn 64, p.62). Our failure to nurture and retain talent is increasingly obvious in the health sector, but is true elsewhere as well and should be regarded as a structural problem.

Government itself is hidebound by a refusal to increase revenue through either taxation or publicly owned revenue-generating assets, and such a fixation on lowering debt levels and size of Government expenditure that progress near impossible. Redistribution through the tax and benefit system is weak. Policies like this – which have been true to greater and lesser degrees of National and Labour led Governments since the 1980s – are coming under increasing pressure from new demands including climate change, international economic and political turmoil, technology change, the aging population, poverty and creaking public services and infrastructure. The Greens' policies are challenging these neoliberal assumptions. How far Labour is willing to change will be key to progress.

Yet the current Government's concept of "back on track" is becoming clear: it is to complete the unfinished business of the 1990s. That caused lasting social and economic distress (which has been missing from some people's memories of Jim Bolger's time as Prime Minister – but not from his). As I have just described, it also failed to create the thriving economy which was supposedly its chief objective.

If this zombie is allowed to be resurrected it will do no better this time. In addition to its original faults, it is ignoring what has changed in 30-40 years: embedded poverty, the urgency of climate change and other environmental limits, a greatly changed international trade and political environment, accelerated technological change and the consequences of the failure of past policies.

Foreign Investment

What part has foreign investment played in these developments? CAFCA's key facts show that of all company shareholdings in Aotearoa, the proportion owned by foreign investors rose to 34% by value in March 2023 and they owned 46.3% – almost half – of private sector shareholdings. All up, in 2023 foreign investors owned almost $550 billion of net wealth, or 18% of the net value of the $3.1 trillion wealth of Aotearoa that has been given a monetary value, like land, housing, plant and equipment, company shares and other financial assets.

These are liabilities on the country's balance sheet, and the result is that a large part of the proceeds of the exports of Aotearoa in effect goes to pay for the interest and dividends on these liabilities. It has been roughly equivalent to our number one and three largest goods exports — dairy and forest products. While there is generally a positive balance of trade in goods and services, it is the large deficit in investment income which ensures that that the country has a large international debt, in many ways much more worrying than the Government's debt which receives much more coverage, and much more than it deserves.

In the credit ratings agencies' eyes, the international debt weighs down on the credit rating it gives to Government debt, because it is potentially a threat to our financial stability and the ability of the Government to repay overseas lenders. However, only a very small part of the international debt is owed by the Government, and in net terms, often none. Most of it is owed by the banking sector which also accounted for over a third (37%) of the deficit in our net overseas payments (the current account deficit) in the year to March 2024.

Foreign Direct Investment (or FDI) is where there is sufficient ownership to have a degree of control of the company. Those who advocate increased FDI – including the current Government and Treasury – say that the cost of the dividends it sends abroad does not matter because it brings higher productivity, new export markets, technology, knowledge and skills. But the facts don't support that. Instead the evidence is that overseas companies took over higher productivity local companies rather than raised their productivity (Fabling & Sanderson, 2011) and that workers in overseas companies on average received only small pay premiums (2.7 to 3.5%) above equivalent locally owned ones. Some such as Uber drag down working conditions.

A 2010 Inland Revenue Department analysis concluded that foreign firms were concentrated in low-competition areas of the economy focused on the domestic (so-called non-tradeable) economy gathering economic rents (Benge, 2010). Think of banking and insurance (which together made up 43% of FDI stock in 2024 according to Statistics New Zealand), and Woolworths supermarkets.

Relatively little FDI has been additional new greenfield investment; instead, acquisitions and takeovers have dominated. FDI carries greater risk of tax evasion and avoidance as examples such as Google, Microsoft, Apple, Facebook and Uber show. The quality of FDI in Aotearoa has therefore been low, and this was acknowledged in a paper Steven Joyce took to the Cabinet of the Key-led government (Joyce, 2015, para. 23; Rosenberg, 2015). Treasury recently acknowledged in its Regulatory Impact Statement for the current proposed amendments to the Overseas Investment Act (The Treasury, 2024, p. 2): "The evidence of the economic impacts of increased FDI is somewhat mixed. … Evidence that includes developed countries is mixed, and New Zealand specific evidence is rare". The obvious conclusion is that we should be selective of FDI, just as we are selective in immigration policy. While some progress on improving legislative powers to select was made under the previous Government, these new amendments go backwards.

CAFCA's Influence

The fact that Treasury is on the one hand advocating more foreign investment but on the other hand cautious about it is a turnaround from the 1990s and 2000s, when few doubts were publicly expressed. Despite the huge increase in foreign investment in our economy during CAFCA's lifetime, it can claim some credit for keeping the flow of evidence of its downsides in front of the public and encouraging officials to be sceptical. I know from my own experience that some are.

It is also worth observing that in other countries there is rising opposition to at least some foreign investment, though often for rather dubious and toxic so-called security reasons. This is often alongside anti-immigrant policies which are increasingly vile and violent. It is to CAFCA's credit that it has deliberately kept out of the immigration debate, disconnecting the two issues. Perhaps that has been influential in immigration thankfully not being the toxic topic that it is in too many other countries – and this is despite levels of net immigration that are high by international standards.

Foreign Investment Is Not The Whole Cause

Given that foreign investment has added to the international liabilities of Aotearoa without substantially contributing to its needs for more exports, higher productivity, higher wage jobs, and rising living standards, it is often part of the problem. But it is by no means the whole cause, and possibly some forms of FDI could be part of the solution if they were carefully selected and regulated to ensure we do get what we need from them.

There is no doubt that the large corporate foreign investors are influential in policy making. We can see this much more clearly with the current Government where such companies are in effect writing tobacco control policies and rewriting employment legislation to favour Uber, resisting the cracking of the supermarket monopolies, and defending our dysfunctional banking and electricity supply systems. They line up in the membership of the Rightwing think tank, the New Zealand Initiative[1] and in the influential Major Companies Group of Business NZ[2].

But in most of those cases, it is not only overseas companies that are putting the pressure on. Foodstuffs is there alongside Woolworths in the supermarket monopoly. Some of the largest electricity companies have Government and local private ownership. Local lobbyists, consultants and lawyers are hired to amplify their views and protect their position.

Farmers' organisations obstruct environmental protections, climate change mitigation and animal welfare policies and, with property developers and landlords, they oppose change to tax and other policies that advantage them in keeping land prices and rent high. This is sometimes defended as just the normal defence of sectoral interests. But when it goes far past what can be justified by the evidence and when the defence of private interests is so damaging to the wellbeing of the rest of Aotearoa, then it has become a blockage to progress, a barrier to solving the problems that we face as a country.

What Can Be Done?

If we carry on with the current structure of our economy, too many jobs will be low paid, people will continue to leave for Australia and further afield, we will be unable to staff our health and education system at the levels we need for quality public services. Skill shortages will plague private sector industries. As the population ages, these problems will become increasingly apparent, not inherently because the Government cannot afford to pay for New Zealand Superannuation and the health needs of the older population.

But because we are not producing the resources to both retain a skilled workforce and meet those needs. The economy and our society will be less able to respond to, and recover from, the shocks that hit the country ranging from pandemics and earthquakes to economic crises, climate change and war. It will be more difficult to respond positively to rapid technological change, such as artificial intelligence.

Industry Policy

The method many countries have used to change the structure of their economy – the industries that drive it and the role of Government – is industry policy. It was how most of the high-income countries bootstrapped

1https://www.nzinitiative.org.nz/membership/our-members/

2https://businessnz.org.nz/membership/major-companies-group themselves out of being agricultural economies. It has been widely used by East Asian countries like Singapore, South Korea, China and Taiwan.

There are at least as many variations as there are countries but to be done well, the Government takes a strategic view of what it wants the economy to be like, and is willing to get involved in changing the economic structure to achieve it. A strategic view means having a clear view of what you would like the future to look like – such as good jobs, high productivity, increased exports, environmental sustainability – and clear priorities to get there – what you will and will not do and encourage.

Industry policy was intensely disliked by the neoliberal architects, and many economists and politicians still have that view. Opposition is rooted in the idea that the market knows best. But we know that the market, left to itself, will not only generate huge inequalities of income, wealth and power, but is likely to create an economy that perpetuates that situation. Its vested interests work to keep it that way and have the resources to do that.

The recent enthusiastic adoption of industry policy in many countries including the US – though with obvious differences between the Biden and Trump Administrations – mean that it is coming back as accepted practice. In fact, all Governments have always done it but often not very well. The current Government is favouring the oil exploration industry with $200 million of investment; agriculture in many ways including subsidising its methane emissions; the space industry; and digital strategy.

We should adopt an industry policy approach too, but do it properly. The Productivity Commission, when I was a Commissioner there, laid out one type which it called “focussed innovation”. It involved attracting a large firm at the frontier of productivity and developing an ecosystem of smaller firms supplying it and making use of its products in ways that spread the knowledge present in the firm and its workers. This would raise productivity and knowledge in many parts of the economy rather than leaving it concentrated in one firm.

The large firm could be a transnational – but inherent in the approach was that it would be selected so that it created wider benefits for Aotearoa. It was based on a study of how other small advanced countries such as the Nordic countries, the Netherlands and Austria have done it over many decades. Important features of all of their practices included that they took a strategic, long-term approach which was often maintained with some variations across changes in Government.

Often, they had a high-level council including people from business, unions, academia, and we would add Māori, who have the added value of often bringing a long-term view, chaired by the Prime Minister or another senior Minister that oversaw the strategy and regularly checked on progress. At the industry level, businesses, unions, Māori and officials are given freedom to decide how to achieve change consistent with the Government’s strategy.

The previous Labour government dipped its toes into the water with Industry Transformation Plans but they were not given enough time to develop and there is a lot to learn on how to make them work better (for a review of them, see New Zealand Productivity Commission, 2023). Among other things the Government failed to fund them enough – a chronic problem.

We don't necessarily have to take the large firm or industry-based approach. There are many other ways to do it. One that has great promise is that put forward by UK-Italian economist Mariana Mazzucato which she calls "mission-based". The Government puts forward an objective that is needed for society. It could be developed in a community-based process or the normal consultation or political process.

For example, in Aotearoa it might be an objective to develop high quality factory-built housing in quantity, using local timber, to reduce the costs and speed up housing our people. Then the Government sets up a project which it supports to achieve it. It may involve research and experimentation and new ways of doing things. All of that develops the capabilities of workers and firms.

An important method that has been heavily used in the development of Aotearoa since colonisation is the State developing the industries and facilities itself. Road, rail, airlines, electricity, telecommunications, civil engineering, and much more were carried out by the Government until they were closed or privatised in the 1980s and 1990s. They had created the basis for our development as an advanced economy.

We should be ready to do the same now, especially in areas that are critical to our economy and society. It is remarkable to see Trump taking Government shareholdings in large firms he views as critical, the California State government selling insulin to undercut the pharmaceutical companies, and Mamdani in New York proposing Government-owned supermarket competition.

Education, Training, Research And Development

Success requires strengthening our research, education and training systems so that they can participate in the process, finding good ways to communicate between industry and researchers so that research is relevant to industry needs but at the same time researchers don't lose their independence and ability to carry out blue skies research. Specialised training may be needed for new industries. Managers need training too.

The Barrier Of Neoliberal International Trade And Investment Agreements

Many of the policies needed for industry policy to succeed are hamstrung by the neoliberal international trade and investment agreements that New Zealand has signed up to. They reduce our ability to regulate many aspects of the economy, to control foreign investment, to use Government procurement to encourage local development and to use policies like tariffs for short-term protection of infant industries. The view that globalisation went too far has gone mainstream, though is still far from universal.

Neoliberal globalisation was led by the interests of large corporations and the biggest economic powers. One of them, the US, is now denying its role and trying to reverse globalisation on its own terms. International law in general is under attack. Rather than desperately trying to preserve and extend commerce agreements as our Government is trying to do, we should be renegotiating them to allow all parties to pursue policies for their own development.

Supporting People Through Change

For very understandable reasons, these kinds of structural change can be frightening to people. Historically when they have occurred, workers have often been laid off and many take years to find work that compares with what they lost – or never find it. There have been several studies of the losses that workers experience when they are made redundant in Aotearoa. One carried out for the Productivity Commission showed that among workers involuntarily laid off, only 50% find new jobs immediately after layoff and one in three have not found jobs six months later. Earnings of workers who find new employment take almost three years to return to pre-layoff levels (New Zealand Productivity Commission, 2024, p. 61). These are substantial losses.

While the policies can be designed to create good jobs rather than cut them, and they should involve worker representatives in making key decisions, they will bring change. There are many other reasons why jobs are being disrupted for reasons outside workers' control such as climate change, new technology and international developments and crises. It is therefore essential that we seriously embrace policies for "just transition".

Just transition is an internationally recognised principle that workers should be supported through the big changes that climate change impels, whether through the climate making some industries wither, the need to phase out some high-carbon industries to be replaced by greener ones, or calamities caused by global warming. It recognises that those who did not cause climate change and have no way to control events should not wear the cost through losing their jobs.

The same principle should apply to restructuring such as I have described. Workers should not pay through losing their livelihoods for changes that will benefit the country and investors in the longer run. Otherwise, they will understandably oppose the change. We must strengthen income support for people who lose their jobs. Social unemployment insurance is the most effective way to replace their incomes for a period, but it must be underpinned by a strengthened and fair social welfare system that treats all who use it with dignity. It must be accompanied by practical support for workers to find new jobs and retrain or relocate if necessary.

Sharing The Benefits

More productive businesses will not pass their higher incomes through to workers unless workers have enough power to demand a matching increase in compensation (in the words of Acemoglu and Johnson). We need to make it easier for workers to join unions and to strengthen collective bargaining. Aotearoa is far behind successful small nations like Ireland, Denmark and Norway in unionisation and far behind most of the Organisation for Economic Cooperation and Development (OECD) in levels of collective bargaining.

The European Union in 2022 required all EU member states to work towards 80% of wage and salary workers having collective bargaining cover. Eight EU countries already were at or above that level and the majority above 50 % (Müller & Schulten, 2024). The level in Aotearoa was just 19%, above only Poland, Greece and Romania (Rosenberg, 2025). The Fair Pay Agreements legislated too late by the last Labour government were a step in the right direction. Unions do not only bargain for better pay however. They can mobilise their members, using their knowledge of the work that they do, to play a vital role in designing the change, helping ensure it is good for society and benefits are widely shared.

Reforming The Tax System

There are multiple ways in which the 21st Century has highlighted the importance of collective responses to problems or needs which cannot be solved by individuals acting on their own, ranging from climate change and pandemics through to poverty, inequality and the aging population. Structural change is another. Government action is essential. We cannot pay for this without reforming our tax system. So, we need more revenue, and it must be raised in a way that is progressive – it taxes those who can most afford it and redistributes to those who most need it. I add that Governments also need to make better use of debt for investment and crisis management.

Politics

As I have gone through this programme (and there is more that could be mentioned), you will have undoubtedly thought to yourself “that will be controversial”. You would be right. The vested interests who are doing very well thankyou from the status quo will be out there with their PR consultants, scare stories, threatening and lobbying. This is a political project as well as a social and economic one which can only succeed if ordinary people are willing to actively defend and advance it.

In Conclusion

To summarise, Aotearoa is currently in a serious policy-imposed recession. It is exposing the country's structural problems. If we do not take action the problems will – with ups and downs – worsen as time goes on. We risk becoming a backwater which cannot adequately look after the needs of our people, while a relative few do well and protect their positions. Part of that structure is low quality and too often exploitative foreign investment.

But it is only part of the problem. We need to change the structure of our economy so it provides good quality, high paid jobs, supported by higher productivity and a strong union movement. To achieve that, our Government needs to take a strategic, long-term approach to industry development. Māori have an important role. I have described what that might involve, and it requires change in the economy and what Government does – but for most of us, that would be change for the better.

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