



# New Zealand's Cost of Living Crisis



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# Introduction

New Zealand is in the midst of a cost of living crisis. Rents are up, mortgage rates are on the rise, the cost of food is up, petrol is up - but wages aren't keeping up. It's time Kiwi battlers got some relief. The Government isn't listening and every day Kiwis are going backwards. In this document ACT puts forward practical ideas and solutions to manage rising prices and reduce the tax burden on hardworking Kiwis.

The Reserve Bank's latest report shows that in the last 12 months, real wages — that is, what you can actually buy from an hour of work — have fallen by more than at any time since the Global Financial Crisis.

Between June 2021 and June 2022, the price of:

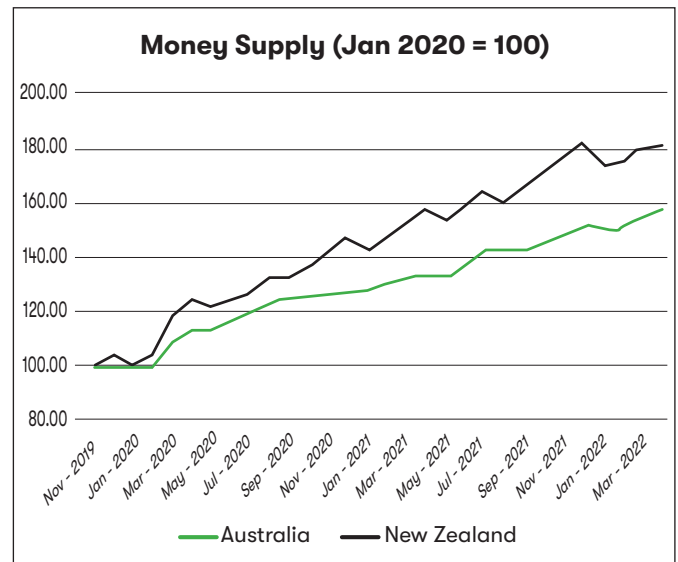
- Food increased by 6.5%
- Housing and household utilities increased by 9.1%
- Transport increased by 14%
- Consumer goods and services generally increased by 7.3%

Other countries are also seeing price increases, but, of the developed countries outside of Europe, only the United States has higher inflation than us. Australia, in particular, shows that a more conservative approach to fiscal and monetary policy can restrain inflation.

Kiwis are paying more for almost everything, whether it's at the pump or the checkout. Prices are rising because the Government has shut down production and compensated with a flood of borrowed and printed cash. The Reserve Bank (RBNZ) predict inflation to be above their target 1-3% range until at least 2023, while businesses and professional forecasters think inflation will be above 3% for at least two more years.

The Government says it's 'global pressures' that are to blame. In reality, the root cause of inflation is simple: Too much money chasing too few goods. Since 2020, New Zealand's money supply has grown by almost 80%. By contrast, Australia's money supply has grown by only 55%. The natural result of such a dramatic expansion in the money supply cannot be avoided: Inflation.

There are two things we need to get inflation under control: More goods and less money. We can deliver the former by cutting red tape and boosting productivity. To deliver the latter will require fiscal and monetary restraint.



Source: RBNZ, Reserve Bank of Australia.

The Government needs to take action now. ACT is asking the Government to stop avoiding the problem. Here's a few actions the Government could take now to reduce cost of living pressures:

- Abolish remaining tariffs
- Replace the RMA with fit-for purpose environmental and urban development laws
- Require councils to accept any 'equivalent material' certified by MBIE for use in building projects
- Exempt OECD members from the Overseas Investment Act, allowing foreign supermarket chains to invest in New Zealand with certainty
- Implement a Carbon Tax Refund returning revenues from the ETS to New Zealanders
- Simplify immigration laws making it easier for migrants to move between employers
- Return the Reserve Bank's mandate to taming inflation alone
- At the same time, we need to deliver immediate relief to Kiwi households. Not through a symbolic \$350 transfer, but through real tax relief. That's what ACT's policy of lower, flatter taxes would provide. Our Alternative Budget shows how we can cut taxes while reducing borrowing by reversing wasteful spending. That means tax cuts won't be inflationary.

**ACT would:**

**Deliver a tax cut for every earner, including \$2,185 for an average full-time worker, with a two-rate tax structure: 17.5% up to \$70,000 and 28% thereafter, together with a Low- and Middle-Income Tax Offset.**

# The Cost of Tariffs

In the middle of a cost-of-living crisis, the Government continues to levy \$195 million of tariffs on products New Zealanders purchase from abroad. Clothing, chocolate biscuits, chardonnay, railway locomotives, and ambulances are some of the many products still subject to tariffs.

These tariffs increase the costs facing everyday New Zealanders in three ways:

1. They directly increase the price of imports we purchase. Our estimates suggest that tariffs could increase the cost of a school uniform for an average New Zealand child by more than \$20.
2. They reduce competition in New Zealand, allowing domestic producers to charge higher prices.
3. They impose a compliance burden on importers, which delays and increases the cost of importing products into New Zealand.

New Zealand producers should not be protected from fair international competition. Such protection only benefits particular favoured companies at the expense of New Zealand households. It also harms other producers, who have to pay higher costs for the imported materials used in their products.

We should be encouraging New Zealand businesses to become more productive and competitive on the international stage. The development of New Zealand's world-leading agricultural industry after we

unilaterally abolished most agricultural tariffs in the 1990s shows that tariffs are often a hindrance, rather than a help, to producers in the long run.

The primary argument for keeping tariffs is that we need a bargaining chip to offer in negotiations for free-trade agreements. But New Zealand's tariff levels barely factor into our FTA negotiations. Because we don't levy tariffs on most agricultural products, removing tariffs can offer no benefits to the people most likely to oppose an FTA with New Zealand: Foreign farmers. Moreover, because our market is so small, offering the carrot of reduced tariffs is unlikely to convince foreign manufacturers to campaign for an FTA with us. The main bargaining chips New Zealand can offer in FTA negotiations will be the same with or without tariffs: Lower prices for high quality New Zealand produce for foreign consumers, as well as easier access to the New Zealand market for investors and service providers.

New Zealand has preached the gospel of free trade on the international stage since the 1980s. It is time to practice what we preach and unilaterally abolish New Zealand's remaining tariffs. It will save Kiwi families almost \$200 million, while making our economy more efficient and productive.

**ACT will:**

***Unilaterally abolish New Zealand's remaining tariffs.***





# The Cost of Poor Infrastructure

If our infrastructure is congested, that means more delays and more costs for everything New Zealanders purchase. Each year, road congestion costs the average Auckland roughly \$1000.<sup>1</sup> Container operators paid almost \$150 million in penalties due to port congestion in Auckland alone from October 2020 to September 2021.<sup>2</sup> If our power networks and generators are overloaded, that means more blackouts and insecurity for households and industry. These bottlenecks make commercial and economic sense to fix. The only reason they haven't been is because of red tape in the way. The main culprit: The Resource Management Act.

Every region has a story about a road, a port, or a dam held up by the RMA. The East West Link in Auckland is still working through RMA appeals 5 years after the project was meant to start. The Ports of Tauranga have recently been kicked out of the fast-track consenting process.

Infrastructure providers spend almost \$1.3 billion every year on consenting.<sup>3</sup> That's just for the consents, without building anything. For the average smaller project — like fixing a dangerous road — consenting costs account for almost 16% of the total budget.

And the problem is getting worse: The cost of consenting infrastructure has increased by 70% since 2014, while authorities now take 150% longer to make

infrastructure-related planning decisions than in 2014/15. The length of the RMA itself has increased by 31%.

The Government's reforms to the RMA repeat many of the mistakes of the past. They lack specificity about who has the right to do what on their land and who has the right to object. That means projects will still be held up by years of hearings, appeals, consultants' reports, and iwi consultations.

We need to build our way out of the cost of living crisis. ACT would set New Zealanders free to do so by scrapping the RMA and replacing it with a fit-for-purpose set of environmental and urban development laws.

*ACT's replacement for the RMA would make it much easier to get building. We would:*

- *Restrict the right to object to neighbours who are directly affected by the project*
- *Allow neighbourhoods to vote to exempt themselves from some planning rules*
- *Create a new Planning Tribunal to determine compensation for affected neighbours who hold out from negotiations to loosen planning rules*
- *Reduce the need for consents when infrastructure projects use a Code of Practice to manage environmental effects, saving billions of dollars and reducing years of delay.*



<sup>1</sup> [www.infrastructure.org.nz/wp-content/uploads/2021/08/Benefits-Auckland-Roads-Decongestion-Report.pdf](http://www.infrastructure.org.nz/wp-content/uploads/2021/08/Benefits-Auckland-Roads-Decongestion-Report.pdf)

<sup>2</sup> [www.nzherald.co.nz/business/auckland-importers-and-exporters-cargo-congestion-penalty-bill-tops-140m-plus/FXDSKAUWE4MLBKMUZKQV4SW4SI/](http://www.nzherald.co.nz/business/auckland-importers-and-exporters-cargo-congestion-penalty-bill-tops-140m-plus/FXDSKAUWE4MLBKMUZKQV4SW4SI/)

<sup>3</sup> [www.tewaihang.govt.nz/policy/reports/the-cost-of-consenting-infrastructure-projects-in-new-zealand/](http://www.tewaihang.govt.nz/policy/reports/the-cost-of-consenting-infrastructure-projects-in-new-zealand/)

# The Cost of Housing

Housing is the largest single expense faced by most New Zealand households. Housing and utilities prices increased by 9.1% between June 2021 and June 2022. Even as house prices cool, the cost of servicing a mortgage has increased to the highest level since 2008.

The forces driving this cost explosion are two-fold: Rapidly increasing interest rates and continuing housing shortages.

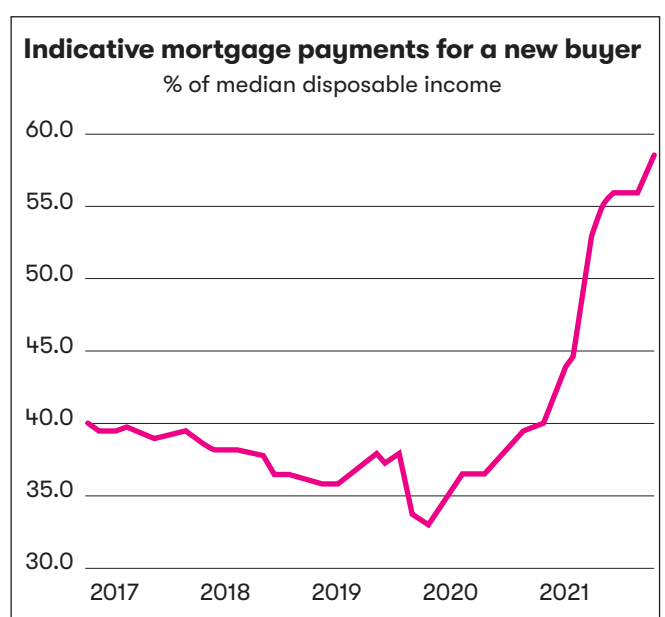
In order to calm interest rates, we must get inflation under control quickly. That will take a joint effort between the Government and the Reserve Bank. We cannot spend our way out of the problem: Continuing to pump demand into the economy with wasteful spending will force the Reserve Bank to push up interest rates by more. In the final section of this paper, we lay out how ACT would regain control of inflation in government.

On the supply side, the solution is not more government building programmes. Even if such programmes actually built any houses (and KiwiBuild suggests they won't), they undermine themselves by crowding out private housing construction.

According to the Reserve Bank, land prices accounted for around 60% of the median house price at the end of last year. In 2016, that figure was only 40%. Thus, land supply continues to be a significant constraint on house-building.

*In order to increase the amount of land available for housing, ACT would:*

- *Incentivise and resource councils to provide infrastructure for new homes by sharing half of the GST levied on new housing construction in their regions with them*
- *Scrap the Resource Management Act, replacing it with a new Urban Development Act that respects existing property rights while making it easier to increase housing supply.*



The remaining 40% of house prices is contributed by the cost of houses themselves. In the 12 months to March 2022, building material prices increased by more than a third. Plasterboard prices, in particular, have increased dramatically.

Labour has blamed greedy corporates for New Zealand's building material costs without first looking in the mirror. As a small, distant country, we are already an unattractive country for building material suppliers to enter into. That disadvantage is compounded by councils' insistence that all building materials used here, be approved by New Zealand authorities alone.

*In order to allow more entrants into our building materials markets and reduce prices, ACT would:*

- *Automatically allow building materials approved by jurisdictions with high-quality regulators and similar seismic situations to ours (e.g., Japan and California) to be used in New Zealand*
- *Require councils to accept any 'equivalent material' certified by MBIE for use in building projects.*

# The Cost of Food

In the year from June 2021 to June 2022, food prices increased by 6.5%. The Government's go-to excuse is to blame the greedy supermarkets. Though we agree that New Zealand needs more supermarket competition, Countdown and New World are not to blame for the food price explosion. The Commerce Commission's report on the sector found that excess profits were at most \$86 per person (less than 2% of the average New Zealanders' annual grocery spend). From June 2021 to June 2022, prices have increased by \$150 per person.

Instead, the skyrocketing cost of food is driven by global forces compounded by bad government policy. Even if the Government wants to focus on supermarket profitability, they have no-one to blame but themselves. New Zealand has the most stringent foreign investment laws in the OECD. The RMA makes it exorbitantly expensive to build new supermarket-scale facilities. Our strict liquor laws give existing supermarkets another tool with which to object to newcomers.

All the while, the Government is threatening any newcomer that they might be forced to share their expensive new supply chains with their competitors. Is it any wonder that foreign supermarket chains don't see New Zealand as an attractive destination for expansion?



**To bring food prices under control, we need to free up the supply chain from the farm to the fruit and vegie aisle. ACT would:**

- **Repeal and replace the Resource Management Act to make it easier to build new supermarkets, logistics infrastructure and farm improvements**
- **Exempt OECD members from the Overseas Investment Act, allowing foreign supermarket chains to invest in New Zealand with certainty.**

# The Cost of Energy

The pain at the pump has never been worse for Kiwis. Global energy prices and bad government policy has meant the price of transport has increased by 14.3% in a year. In particular, the Emissions Trading Scheme currently adds approximately 18c a litre to the price of petrol and roughly \$12 per fortnight to the average household's electricity bill. This money currently goes towards the Green Party's climate slush fund, ACT thinks you should be hanging on to it.

The Government's response has been to cut fuel taxes temporarily. Though well-intentioned, that policy will have unintended consequences. It effectively subsidises petrol right at the moment when petrol is scarce. That means New Zealanders are less likely to reduce fuel consumption where it is possible to do

so. We need to give relief to New Zealanders, without blunting the incentive to conserve energy.

ACT's Carbon Tax Refund achieves both objectives. It would return the revenues from the ETS to New Zealanders in tax relief, while still ensuring that emitters bear the cost of each additional ton of carbon they emit. By giving Kiwi households a lump sum each year, we will provide you with the resources to make investments in reducing your energy use (e.g., replacing an oil-column heater with a wall-panel heater).

- **ACT's Carbon Tax Refund would return the revenues from the Emissions Trading Scheme to New Zealanders. That's more than \$200 to every man, woman, and child in tax relief each year.**



# The Cost of Hiring

Labour shortages are slowing down economic growth and exacerbating price increases. In the latest NZIER Quarterly Survey of Business Opinion, a net 70 per cent of businesses reported difficulty in finding skilled labour and the NZIER reported that “labour remains the primary constraint for businesses.” The quarter also saw a record high proportion of businesses reporting difficulty in finding unskilled labour.

We can ease these pressures by reducing the cost of hiring. That helps businesses and employees alike, as it is easier to find suitable matches between them.

*In order to make hiring more affordable (and to prevent it from becoming more unaffordable), ACT would:*

- *Scrap Fair Pay Agreements*
- *Reverse the Government’s proposed income insurance policy, which threatens to levy an additional 2.77% tax on earnings*
- *Offset the introduction of a Matariki public holiday by removing another public holiday (e.g., 2 January)*
- *Reintroduce 90-day trials to make it easier for employers to take a chance on risky employees.*

The immigration system has long been a mess, and Labour’s ‘Immigration Reset’ was doomed from the start due to bad policymaking and their anti-immigration ideology. Employers across the country tell us that it’s

become near-impossible to bring in desperately needed workers, and the new Accredited Employer Work Visa scheme will make it even more difficult.

The new residency scheme ‘Green List’ provides a fast-track to residency for some, but leaves professions that are needed for labour shortages like electricians, plumbers and nurses out in the cold. While those who are eligible, are delayed by slow visa processing times. The costs this mess is inflicting on businesses is serious and escalating. Consumers are feeling the pinch too, as sector wide workforce shortages push prices up.

*As an immediate fix, ACT would:*

- *Provide all occupations on the ‘Green List’ a fast-track to residency by removing the ‘work to residence’ divide*
- *Simplify the Accredited Employer Work Visa scheme by abolishing labour market tests, wage rules, and make it easier for migrants to move between accredited employers.*

In the longer-term, ACT will undertake significant reform of the immigration system, putting more power in the hands of employers and providing simple pathways to residency. Policy development is underway and will be released before the end of the year.



# The Cost of Bad Policy

The price increases we are enduring today may stick around for the long-run. If workers and businesses expect that inflation will be high, they will make price- and wage-setting decisions to account for that. That creates a self-reinforcing cycle of price increases. That is the worst-case scenario, but it may already be coming true: For the first time in 20 years, inflation expectations for two years from now are above 3%.

If higher inflation expectations become embedded, even-higher interest rates or even-larger cuts in government spending will be needed to restore price stability. If the Reserve Bank loses its credibility for controlling inflation, borrowers across the country — including the largest of them all: the Government — will have to pay higher real interest rates for many years to come to compensate savers for the risk posed by high and unpredictable inflation.

Already, the cost of servicing a mortgage on the median house is over half of the median household disposable income — the highest level since the Global Financial Crisis. Not getting prices under control may condemn us to such a situation for much longer.

We have two choices. We can make the tough choices today to keep inflation under control. Or, we can pray that, despite all evidence to the contrary, inflation will fix itself all on its own. If it doesn't fix itself, we may be forced to make traumatic policy changes in the future. ACT says Governments don't just exist to do what is popular. They must face up to the realities of our economy as it is, rather than our economy as they wished it was. Strong action against inflation now is what is necessary.

## The cost of the Reserve Bank printing money

The narrow money supply has expanded by more than \$10,000 per New Zealander since January 2020. The Reserve Bank has extended — and are still extending — cheap credit to banks and bought billions in government bonds.

This bond buying programme has already begun losing money as interest rates rise. Naturally, this dramatic expansion in the money supply will eventually result in higher prices, as more money chases the same quantity of goods.

Until recently, our Reserve Bank was respected around for the world for its single-minded focus on controlling prices. Unfortunately, just at the moment when such focus is most needed, the Reserve Bank has its eye off the ball.

Labour's amendments to the Reserve Bank Act added a second objective for the Bank: to maintain 'maximum sustainable employment'. That sounds good, but its real effect is to distract the Reserve Bank from the one thing it really can control: Inflation. Changing interest rates and printing money can temporarily juice the economy, but economists agree that the unemployment rate is mostly driven by the structure of the labour market and the economy's fundamentals. By reverting the Reserve Bank Act to its original form, ACT would return the Reserve Bank's focus to where it is really needed.

Not content with one new job, the Governor of the Reserve Bank has also accumulated other responsibilities. He appears to believe that fiddling with interest rates and bank regulations will solve social inequities and prevent climate change. For example, the Governor used his speech to the 2022 Central Banking Global Summer Meetings to explain why he thinks of the Reserve Bank as akin to Tane Mahuta, rather than explaining his approach to monetary policy during an inflation spike.

New Zealand's world-leading model of independent central banking tamed decades of persistent inflation in the 1990s and should be able to do so again. It just needs focus and accountability.

*In order to restore monetary policy credibility, ACT would:*

- *Return the Reserve Bank's primary mandate to taming inflation alone.*
- *Change the appointment process for the Reserve Bank Board, allowing the appointment of monetary policy experts from New Zealand and abroad, in order to create more internal accountability inside the Bank.*
- *Apply stricter scrutiny in future before granting Crown indemnities for alternative monetary policies, to ensure that such policies had a strong economic evidence base before risking billions of taxpayer dollars on them.*



## The cost of Government spending

However, we cannot simply rely on the Reserve Bank. As the Bank noted all the way back in 2000, “if the government increases its net spending, all other things being equal, monetary policy needs to be tighter for a time, so as to slow growth of private demand and “make room” for the additional government spending”. That means, without fiscal restraint, your mortgage rate will go up more than it would otherwise need to. If you have the average floating mortgage, every 1% increase in interest rates leads to an \$52 increase in weekly repayments.

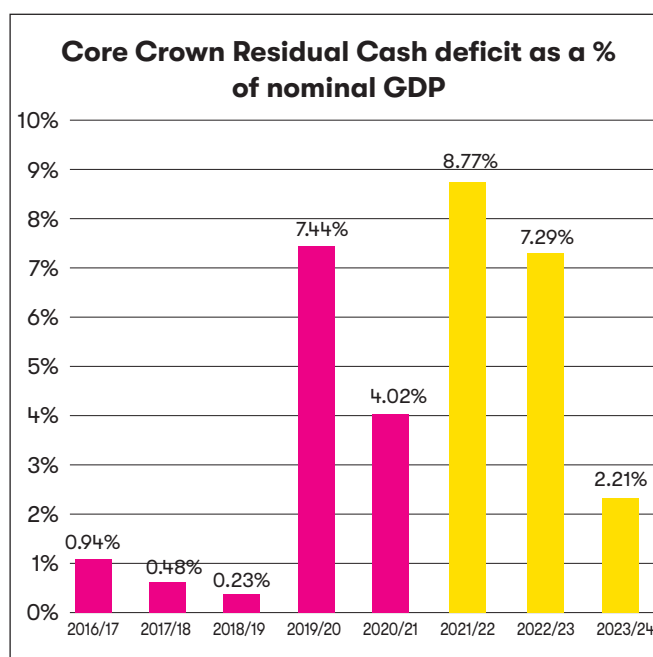
Despite that, the Government has insisted on dramatically increasing the size of the deficit relative to the forecasts they made only 6 months ago. Indeed, even as the economy overheats, the Government’s borrowing requirement (i.e., the amount of new cash it is injecting into the economy) is projected to remain above normal pre-COVID levels until at least 2024. That means government spending is injecting more money into the economy than taxation is removing.

ACT’s Alternative Budget has identified billions in savings which can be made, without impinging on core government services like policing and health. These savings are sufficient to allow us to provide a tax cut for every taxpayer and to

make new investments in important areas like defence, infrastructure, and education, while still reducing government borrowing compared to the Government’s budget.

**ACT’s Alternative Budget would:**

- Reduce government borrowing, in order to reduce the demand pressure in the economy, allowing the Reserve Bank to be less aggressive in increasing interest rates.



## Conclusion

New Zealanders are sick of the blame game when it comes to the increasing cost of living. They don’t want to hear Jacinda Arden and her Government continue blaming everyone from supermarkets, fuel companies, or Vladimir Putin and international factors, they want to hear solutions about how we can get things under control.

That’s what ACT has proposed in this paper. Kiwis don’t have to just accept that everything is too expensive, with a bit of political courage we can turn the tide.





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