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## Opinion

By: **Chris Leitch**, Leader

Subject: **Score Card for Adrian Orr**

It's that time of the year when teachers are writing pupils' end of year reports.

It's something reporters do too for our politicians and cabinet ministers but perhaps it's something we should do for government departments and others who are supposed to provide taxpayer funded services for the public.

Given the current inflation crisis and its contribution to it, maybe we should start with the Reserve Bank and its governor, Adrian Orr, especially as he has just been reappointed for another five year term, and conceded he's purposely creating a recession.

In 2020, when the need to support incomes became patently clear, the government stepped in with its wage subsidy scheme. Helicopter money and other income support options were floated.

Economists like Ganesh Nana, now head of the Productivity Commission, and Geoff Bertram, politicians like Jim Bolger and former Finance Minister Michael Cullen, and commentators like Bernard Hickey, were all proposing ideas that just a few short months earlier would have been unthinkable. (More here - https://www.socialcredit.nz/quotesfromeconomistsandexperts)

Those ideas were not unknown, or untried, just not talked about in the Neo Liberal economic environment our economy has been operating in.

Milton Friedman, one of the main regurgitators of that line of economic thinking (the world had tried it before in the late nineteenth century. It was an abject failure then too.) said "Only a crisis - actual or perceived - produces real change. When that process occurs the actions that are taken depend on the ideas that are lying around".

Ideas were indeed "lying around", and had been tried successfully in New Zealand, Australia, Canada and other countries before and the crisis was now providing the opportunity for them to be discussed.

In New Zealand the Labour government of 1935 used the Reserve Bank to fund the building of 33,000 state houses, and a 1% overdraft for the country's producer boards – at no cost to taxpayers.

In Canada in October 2011 the Bank of Canada announced its intention to increase from 15% to 20% its purchases of government bonds direct from the government – essentially creating money for the government of Canada.

Reserve Bank governors across the world are known for being conservative, not wanting to utter anything that would 'spook the markets' (although why the country's financial elite should be more important than the majority of the population is never explained).

Yet in that 'actual or perceived crisis' our relatively new governor was leading the charge with those ideas that were 'lying around'.

In an interview with Bloomberg in April 2020 he said "Direct monetization (the Reserve Bank funding the government directly), I know, has been heresy, taboo for a long time, but it's only a long time in our lifetime." "It's not a mysterious issue. It's just not how we've run the business."

And in a Radio NZ interview he said "Being able to do the helicopter kind of money concept would be around being able to inject cash into the system. That sounds quite exciting".

The report card at that point would have read 'Shows potential, understands concepts that could usefully be developed'.

Despite all those ideas that were 'lying around' and being discussed, and the unsolicited aide memoir titled “Quantitative Easing and Monetary Financing Compared” (authored in conjunction with the Treasury) which it provided to the Finance Minister in May 2020, the Bank stepped in with its orthodox Quantitative Easing programme following the same path most other central banks did.

It did so even though the aide memoir it had authored recommended that Monetary Finance (funding the government directly – as Canada had done) could be used to “meet specific funding needs of the Government at lower cost and with greater certainty than QE".

As the report flagged, that decision to go with QE rather than Monetary Finance meant significantly higher costs for taxpayers - $7.2 billion in premiums paid to the banks to get them to sell their government bond holdings, $6 billion annually in unnecessary interest payments on borrowing from the commercial banks, and $1.5 billion annually in interest payments to the banks at the increasing OCR rate on the money sitting in their reserve accounts.

How many nurses, doctors, midwives, psychologists, teachers, hospitals, schools, and state houses would that fund?

QE drove the insane rise in house and other asset prices and was a major contributor to the inflation we're now suffering.

The report card now reads 'potential unrealised, could have done much better'.

Sad, because if Orr had pursued Monetary Finance with as much vigour as he is pursuing turning the Bank into a climate responsive Maori clothed entity we would not need to have the OCR at 3.5 percent, mortgage rates at 6 percent, inflation at 8 percent, and thousands on waiting lists for hospital treatment and state houses.

In New Zealand's case Milton Friedman was wrong when he said "Only a crisis - actual or perceived - produces real change".

It didn't.

Adrian Orr can take a large part of the responsibility for that.

Former Australian Treasurer, Paul Keating, in a letter to Australian media in September 2020, hit the nail on the head.

He criticised Australian Reserve Bank officials for lacking the courage to break with economic orthodoxy to allow monetary financing of deficit spending, and said they were too concerned about what other central bankers would think if Australia went down that path.

“Buying bonds directly from Treasury — wash your mouth out on that one — what would they say about us at the annual Bank for International Settlements meeting in Basel?”

The same accusation could be levelled at Adrian Orr and our central bank – even though they put that option on the table in 2020.

**Ends:** For further comment contact:-

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