



Economics in the Year of the Pig – Early Xmas Newsletter

HTML - apologies to those of you who are "text only people" by choice or coercion. A version of the newsletter which is a spot more pleasing can be found at

Various pressures mean my Christmas Greeting and thanks this year is relatively early.....

The survey - please give it the minimal time required

I am running a brief survey to ascertain types and form of economic and financial advice which is or would be useful to people, what they think the weaknesses are in our industry and how it can be improved - more specifically how I can improve what I do for everyone I work with. The survey is short, results are anonymous in terms of who they are gathered from (they are aggregated sight unseen in a very magic piece of software from Survey Monkey) and of course this is a voluntary exercise. Your participation would be much appreciated nonetheless. Please click on the following link (some clients require "control click").

http://www.surveymonkey.com/s.aspx?sm=YuiBTyYtrkRbOgJaaVXM3g_3d_3d

Busy Year

It has been busy – this year I kept count. BWL worked on 45 separate jobs or separately identifiable parts of jobs for over 20 different clients in four countries. In the process I travelled over 350,000 km with more than 75% of that being in N.Z. That distance is not generated through living in Dunedin. Similar distances were involved in previous years – but of course the Govt has crowded out the possibility of a decent sized shareholding in Air N.Z.

For a one person business that is simply impossible to do without great help from:

- All the clients I work for who are helpful, constructively critical, friendly,
- The close professional and personal mentoring friends who know who they are,
- All the suppliers in travel, accommodation and the many infrastructure support roles, and of course
- Partner support unlimited.

My thanks to all of you as well as my bow to your experience, skills and giving nature. May Adam Smith – patron Saint of unintended benefit – bless you during the great Christmas layoff.

These Stats Paint a Fairly Obvious Picture

To the year ended June 2007

Non wage and salary labour cost increases	8.1%
Work accident insurance costs	9.3%
Wage and salary costs	3.2%
GDP	2.2%

Politics - Beware an 18 - 20 Result

The parallel is uncanny. At this stage, perhaps 12 months out from the election, various factors suggest a change of government in 2008 and that the Key led Nats are a shoe in. That might not be - and for the same reason that we had 18 - 20 at St Denis. Mental toughness and no play yet amongst tough opposition.

Looking good on the cover of "No Idea" or the 'Woman's Weekly' is right up there with 98 - 3 against Georgia or Japan. A policy that says "we're going to wipe out gangs" is up there with "boys dug deep", and signing up for every major policy initiative of the incumbent over the last three years equates to "training rilly rilly hard by watching the videos of the French".

I know its wildly unpopular since "yer brain hurts" but it would be wonderful to see:

- a few principles spelt out
- an explanation of why they matter
- some policies derived from the principles spelt out
- a description of how they differ from existing approaches
- some reasons advanced as to why all this will make people better off in total

Not vastly different from what every successful business tries to do. Focus on benefits not features a la sales 101. Still - let's not be too naive here. The market all this operates in is utterly fragmented, focussed on the super short term, actively seeks tradeoffs where consistency matters not a whit and all of this is built into the MMP rules.

The PM loves opera, I still can't hear her singing - and she isn't fat.

The Big Focus

The big focus in communication this year for BWL has been the web project and thus newsletter writing has taken a back seat. A lot of material which would otherwise go into the Newsletter now goes on the web. I provide updates fairly frequently as to what is new on the website and of course it has an RSS feed for every section. The site is www.brentwheeler.com . Links appear at the foot of all my emails and these are update frequently as well.

After four months in full swing the site is now averaging about 5,900 page views from an average of 875 unique visits a week . The time span for the statistics is too small to assess any trends at yet but hopefully the material is proving useful for some.

Thank you to all who visit.

Five things the Royal Commission into Auckland Will Not Say

1. Goodness me, everything is as good as you can expect with 134 politicians running the place, rights to become involved in any sort of mischief under the banner of "consultation" and at no cost, and coercive power to take peoples hard earned off them. No real need to alter anything at all. If this is what the people want - let them have it good and proper. Pity we wasted the two years and the \$1.0 m. Must remember not to do it again. It's been an extraordinary waste of resources.

2. Having thought long and hard about it we can't actually see any role for a Mayor or any useful function served. In fact, these sorts of delusions of control, accountability and

importance are rather dangerous. Since we outgrew the role of Sheriff and nationalised the Police but in the 30s (that's 1830s in England) as Mayor there is not a lot to do other than try to Chair meetings where you have virtually no power, ribbon cutting and baby kissing and relentless rounds of explaining to people that most of what they want you to do is outside your power. The role is also a destroyer of some of our best talent. Replace with revolving chair and consign Mayoral chains to the museum forthwith.

3. Trying to find common solutions to the problems we have seen in examining the performance of public governance functions in Auckland, the most outstanding feature is that there is no serious accountability in two areas. The first is where property or assets are "taken" for causes good or bad in the name of the public interest. This is a menace to numerous good outcomes and could be fixed at central government level relatively easily - no takings without compensation.

4. Second, it seems that all the politicians involved here make decisions which affect peoples' lives and they spend people's money. At the very least they should be held as accountable for this as, say, company directors. They should therefore face, just as company directors do, personal liability and a set of sanctions and remedies equally as fierce. If that puts people off standing then it seems likely that only those prepared to take the risk and do the work will be attracted to these positions, many of which are after all, well remunerated.

5. Best we all shift to the South Island.

Very Slow Learning Indeed

Our knowledge about the way risk and returns work and the way that should affect our investment behaviour seems depressingly incomplete, confused and mixed up. This is most noticeable when a company turns turtle and people lose money. Some myths which seem, from what people say and more importantly the ways they behave, prevalent:

1. Getting things the wrong way round "Whoa look at that. What a good interest rate - nice and high. This company must be doing well if it can afford to pay that. I must invest." Entirely and precisely the reverse of the thinking required of course. Companies and investment funds only pay in interest what they are forced to pay by the risks they take and the market perception of those risks. If they were less risky they could afford to pay less and still raise the capital they need. High interest rates are an indicator of potential trouble. Trading banks pay less than finance companies not because they are more miserly. Worse, finance companies do not pay more than the banks because they are nice guys. "Niceness" has nothing to do with anything much except the in laws on a good day - and even that's a risk. We need to learn this. It's as basic as our widespread knowledge of how to fix tap washers and change tyres.

2. Depending on History and Regulators "These guys have never had a loan default yet. I have read the prospectus and it says they have never had a mortgagee sale and they have never had to sell up anyone's assets. My broker says the same thing - and he pointed out that the Securities Commission have approved their prospectus. They must be a sound lot to put my money with." Very likely wrong. If you never sell up any assets on loans which default you never know what the assets are worth. Often the assets have much less value than when they were used to secure the loans. No mortgagee sales does not mean much other than the fact that the lenders don't (yet) know the value of the security they are lending against. The Securities Commission is not charged with telling you this, saving your hide, looking after your risk or anything remotely like that. It is required to check that the statements in the history book called the prospectus meet the attempts of the legislation to describe (NOT analyse) the

company accurately. The Securities Commission is not in the "conclusion" business or the insurance business or the "get investors money back" business. This too is basic.

3. Ignoring Incentives and Looking for "Nice". "That nice Mr Weldon at the NZX said markets always go up and down and that the future is bright for the share market." And? As Mandy Rice Davies said of denials about a scandalous affair by a Brit politician "Well he would say that wouldn't he?". Nice Mr Weldon is correct markets do go up and down and he maybe, though the truth is no one knows, right that the future is bright for equities. The point is he pretty much has to say that. Marketing is part of the core role he is contractually bound to pursue by his profit making employer the NZX. This does not mean that he is required to mislead people - he is not and doesn't. It does mean that he is not paid to analyse risks for equity investors, to warn people of the downside perils of equity investing or how to manage that. The incentives he faces mean that he is a poor choice to look to for advice about reducing your share investments, loading up on fixed interest (except of course for the listed debt instruments on the NZX). Most critical of all, it pays to look at incentives of those who advocate this or that investment, not try to guess motives of people.

Colin James - Very Perceptive Point

As he sometimes does Colin James can pull a very fluffy rabbit out of the hat. In the ODT of 28 August he points out that at least half the reason Key will end up PM is that Clark has done a good deal of the hard work on the Nats already. It is her administration - or coming up nine years of it which has forced the Nats to "move on" - in foreign policy, defence, attitudes to welfare beneficiaries, and views on what used to be the National party neo con core.

He describes Key (accurately in my humble) as thus being more akin to her successor than her opponent. If one ignores the ritual spitting both sides (calling each other filthy Tories or screaming communists or whatever other unimaginative insults pass for conversation amongst large numbers of politicians) it is easy to see that for those who "want a change" but are risk averse in moving from the Mt Albert skirts and all they promise, Key is your man.

Best of 2007 – Minor Personal Selection

Best event:	Steely Dan concert September 24 th , Christchurch
Best software	Good Sync 6
Best movie	Death at a Funeral
Best theatre:	Fortune Dunedin's King Lear
Best TV	Auction House
Best TV line	Peter Wedde "Isn't it absolutely atrocious."
Best doco:	Johan Norberg – Globalisation is Good
Best research Finding	N.Z. saving rate growing not shrinking NZIER
Most flagrant abuse of spectrum:	Paul Henry in general and laughs at his own non joke
Smartest move:	Kaye Gregory leaves P. Henry to it on TV1 Breakfast
Least painful finance commentary	Ira Goldstein
Best economics:	Joanne Black on Exports, Roger Kerr on tax
Most gendered non surprise:	Uncritical adoption of, OMG, "pink" – everywhere
Biggest Unanticipated Surprise:	Winston Peters "may throw hand in with National if required"

Best sports exploit	Craig MacMillan with diabetes and a bat
Read:	Nassim Nicholas Taleb, "The Black Swan"
Most optimistic:	Penalty refund for those reinvesting in Northern Rock
Luckiest:	RB leap into forex market without total loss of shirt.
Al Gore prize for hyperbole and ego:	Awarded to himself.
Tragic loss:	Sax player Michael Brecker in January
Biggest set of hospital passes:	Howard Broad

Big Things which Should Feature in Every Policy Agenda

As parties gear up for an election here are some things to centre economic policy on. What they all have in common is that they are blindingly obvious – and only a tiny bit courageous politically:

1. Stop Tax Hoarding and Get on

More face is being lost by not dropping tax rates than by trying to preserve some line that was as wrong in 1999 as it is now. Not even worth debating – just do it. Make sure cuts are even and aggressive and driven by the need for efficiency not green eyed jealousy, envy and not the irrational obsession with relative not absolute wealth which keeps our poorest poorer.

A good tax regime is like a good golf swing in the wind – low and flat.

2. If You Must Subsidise, Subsidise Consumers NOT Producers

Recent years have seen a swing back to giving money to producers in the vain hope that it will filter through to consumers and users. That doesn't happen. Producers filter, obscure, and rent seek so that consumers miss out.

Worst offending sectors – health and education. Have the courage to let people take charge of their lives not your version of how they should live their lives.

3. If You Must Take Have the Decency to Compensate

Citizens concerned with efficiency and equity and both become equally annoyed, frustrated and jeeringly critical of state systems and the politicians who operate them using coercive powers to take and then not compensating – in land, in asset value via regulatory impositions and through other interventions.

Other countries which recognise that there may be grounds for "taking" and "takings" found the notion on the principle that where something is taken the owners is compensated. Much goodwill and beneficial outcome could be generated by simply observing this "no theft" principle at central and local government level.

Last Word

"Puritanism. The haunting fear that someone, somewhere, may be happy."
H.L. Mencken