

Dr Alan Bollard

(Alan Bollard, Executive Director of Asia Pacific Economic Cooperation)

[Interviewer question to 00.15]: What changes have you seen over the last few decades?

Well in economics, though it has been through some changes, we've seen the rise of computers, we've seen the rise of big databases and we've seen the rise of 'economists can do anything and you don't have to apologise.' That has been a particular sort of theme with economics, but I think it's changing now. In fact, I think it's changed over the last five, ten years and will go further. So I anticipate we'll continue to see more focus on people's behaviour, less assumption about global rationality, less expectation that you can actually just forecast the future through some of the mathematical models that are out there. There are very complex models, but they've plateauing as to just how useful those are gonna be. And then there's a question about where big data goes and where small data goes and how much that can be incorporated into economists' work as well. I think we'll probably find economists also listening more to other social scientists, psychologists about people's behaviour, that sort of stuff. Potentially it's got a long way to go because we've still got a lot to do designing policies that work across the board - not just for a rational man sort of society.

[Interviewer question 1.29 to 1.34: Is behavioural economics here to stay?]

I think it'll change, how it goes on. Actually, it's interesting that a lot of it's been done by economists but on non-economical issues. So if you're looking at things like the future of crime – I'm not exactly sure why economists would be doing that, except they're very good at statistics – as some other social scientists wake up and learn to do top-class statistics, they'll probably get in and push some of the economists out of those fields.

[Interviewer question 1.58 to 2.03: What changes have occurred in trade and commerce?]

Yeah, well we've been in this part of the world on a bit of a wave where we've seen *big* increases in international trade and those have really grown economies and, and that has resulted in a *huge* increase in living standards for poor people at least in the East Asia region – probably half a billion people out of poverty over the last 20 years. But that won't continue like that. Trade growth is slowing. There's other drivers for growth in the region and there's a lot more focus now on sorts of quality of growth, how good is the growth, who does it affect, how does it affect them – that sort of thing. A lot more about getting under-represented groups and businesses into the international field – small and medium enterprises using modern, electronic commerce techniques now can get some of the advantages of internationalisation. Women in the economy and in businesses much more. So we'll see a lot of that, but I think we are going to see some growth in domestic demand out of some of the big developing economies like China and India and Indonesia as being a big driver for the future.

[Interviewer question 3.11: About China as a customer]

It is affecting us right now, but of course the cycles and trends – and I think you're more interested in trends – we are seeing a commodity cycle at the minute. As China slows, commodity prices slow. China's always been big enough to, at the margin, make a very big difference on prices. And the challenge for us is to look through those prices, and still that's where the information is and that's what we've gotta follow, but we didn't have to be a raw commodity exporter. We've had 30 years to go up the value chain on dairy. We decided not to,

and so we shouldn't complain about cyclical dairy prices, like at the moment.

[Interviewer question 3.51: About New Zealand's economic base]

I think we have to resolve it. I think that's gotta be New Zealand's future. I don't exactly know how it gets resolved. We're clearly good at originating biological produce from temperate zone stuff, but we're getting a lousy return on it. Look at the forestry industry, raw logs - happening in the dairy industry – basic milk powder product. We seem to focus on getting the minimum processing necessary to stabilise a product and then exporting it. Infant formula sold in Singapore from New Zealand milk, blended and packaged and branded and marketed in Singapore - what does New Zealand, Fonterra and the dairy farmer get from that? Ten percent of the final price. Is 10% good enough? I don't think so. So we've got to be a sight cleverer about all of that. But it's not straightforward and that obvious quite how that happens.

Economists have always forecast for the focus on five years, that sort of thing, which isn't a long-term sort of approach. They know there's some things that can be forecast; I think we know pretty much there's other things that we're not good at forecasting. And turning points - not necessarily, and some big changes - not necessarily. So Global Financial Crisis – not generally. Things like climate change, it's very difficult for economists to, to really work out quite how that all impacts over what time period and, and what the policy range of possibilities are in that.

One area which we do forecast long-term, I think, quite well, is demographic. New Zealand has led the world in terms of fiscal forecasting and that's basically a demographic forecast. So you can do that, but as to quite what that all leads to, there's a lot of questions about all that as well and I don't think it's going to be quite in the demographic disaster sort of zone that some pundits would say.

[Interviewer question 5.52 to 5.57: What do New Zealanders need to do in the next 50 years to assure a sustainable future?]

Well, we still need to know our place in the world. The OECD a couple of years ago did a report on New Zealand where they defined New Zealand as the smallest and remotest real economy in the world by economic measures. Now, we are a strange economy. We're not *like* almost any. We've spent some decades trying to find countries to compare ourselves with and learn from, but it's not easy, because we are different. So how do we fit in the world? How do we make our way in the world? How do we make sure we're not leaving money on the table for other economies to pick up on around the world off New Zealand produce? And that to me means a lot of continued globalisation, a lot of learning about the world – not just traditional places we know about. What do we know about Indonesia? It's the fourth biggest country in the world. It's the biggest Islamic country in the world. It's the second closest country to New Zealand. We think it consists of Bali. Time to smarten up on that sort of stuff.

[Interviewer question 6.54 to 6.59: What might a New Zealander in 2065 say about what we have done for them?]

That might say something about resource, ownership, control and development, but I think they probably will realise the problems of forecasting 50 years ahead. I doubt there's gonna be very big advances in that sort of long-term trend forecasting. So I expect them to say, well, we are richer than New Zealanders back in 2015 and we have more options and choices and things to do as a result of all of that. They should thank us for our wise investment and they should bear in mind that we didn't have full knowledge and that the mess we might have left on climate

change was quite a problem. It's not that easy to see even now how some of that's handled. But actually I'm positive in the sense that they will be better positioned to deal with some of those things than we are now, because that's what economic development is all about. The next generation is always richer and has got more choices than the current one.

[Interviewer question 8.01 to 8.0: What sort of leadership do we need to make the right decisions?]

Yeah, well I mean educated and balanced and not consisting of people who think they're owed a lot on an individual level, but they're prepared to look on a social level. Not systems that get themselves ground down by over-consultation and never actually acting. We are in a world that is moving *very* fast and some parts of New Zealand look like change is glacial as a result of all of that. So I think we should be looking at some of the other systems around the world and not just assuming there's one thing called democracy and it is good, because there's many different things called democracy and they're not all good and there's actually a whole bunch of other systems we should be looking at in all of that as well. So I'd say look beyond the Westminster system in this, but keep remembering it's the social outcomes for the greatest number of people that is most important.

[Interviewer question 9.02 to 9.09: What about the interplay between Confucian systems and western individualist systems?]

Well there is a tension there and Confucian systems are different, but Confucian systems... I'm not sure, if Confucius was alive now, how many of those systems ever were called Confucian, and there's been plenty of governments have played with the term 'Confucian system' over the years. But Confucian means a number of working rules, and sometimes those are clearly in the social interest, but not always. And just following rules doesn't always work either. There's got to be a balance in all things and some transparency about it as well. I think we can learn from other systems, but I think there's plenty in our own system that works pretty well as well.

We've got mainly a boring political system and that's good. It might get more exciting with big data because we, we typically have been in a situation where, I don't know, governments might want to develop some policies, some social policies, to help poorer people, but that's actually been quite hard to do with the sort of data that's been around. We are going to get to the situation where there is going to be available data at a *very* micro level, which might allow policy development to be a lot more acute and better focussed on all of that as well – what we call Pareto optimality. But that's for the future.

[Interviewer question 10.28 to 10.32: Any final thoughts?]

Any prognostication I've got about 50 years out, will be wrong. I think it's pretty important that we do hope we're gonna have prices that reflect real scarcity values right through that period, because ultimately those will be the things that people will respond to on an economic plane. And you can get those wrong just as much around environmental technologies as around non-environment technologies; if we get those wrong we'll get 2065 wrong.

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