Forestry Taxation –
a follow up

Sir,

Your graph showing the relationship between new planting rates and taxation changes in the August issue of New Zealand Forestry was interesting and certainly very persuasive. For the sake of future historians I think it is important to describe developments that affected the forestry sector during the mid to late 1980s as these might shed some light on planting patterns. For example, deregulation of financial markets opened a range of new investment options (remember how businesses suddenly became interested in globalising and diversifying their activities as they explored new opportunities offshore), changes in macroeconomic policies leading to high real interest rates, the need for early returns in capital expenditures, major restructuring in both the public and private sector and increased corporate debt. Let’s not forget the corporatisation of the Forest Service, a significant forest developer, and new management objectives that favoured maximising operating surplus rather than adding new assets. With its sale, the opportunity for the private sector to bid for established forest areas was a significant factor which alone would have made it difficult to justify continuing expenditure on developing new land. Given all these factors it does not surprise me that new planting declined. With a major part of the sale of Crown Forest Licences having been completed, coupled with new players entering the field, and the increased need for private retirement provision, one would expect that interest in forest planting will again increase.

It is in the forest industry’s interest to see the economy developing strongly in all sectors. Not only is the domestic economy an important market for our products, but it also supplies the material and technical inputs that allow us to become competitive. Take, for example, the extent we as an industry rely on New Zealand software (a sector that now exports the equivalent of our total log exports to Korea) for our management and controlling activities. Much of our success in processing will depend on solutions and skills developed in other sectors. Much of our business acumen, marketing successes, ability for innovation and technical excellence will depend on the opportunity to draw on people across a wide range of backgrounds and experiences. This can only happen if we allow the development of a broad-based economy. As the size of the state pie is fixed, it is in our interest to see that government policy does not provide tax benefits to any one sector at the expense of others.

From time to time we hear the seductive call for more "pragmatic" economic policies. However too easily it leads down the path of unprincipled policymaking and sloppy economic management. For example, should the Government heed the call for lowering the exchange rate, accept higher levels of debt repayment, and then respond with higher taxes at the cost of stifling the domestic economy? Or meet the increased debt repayments by borrowing more heavily, followed by a rise in the cost of capital? Government reacts by clamping down on interest rates, capital repays by moving offshore, becomes scarce, capital movements are introduced ... is there a sense of déjà vu?

Andres Katz

From the ANZIF conference at Christchurch a field trip was made to the Selwyn Plantation. Pictured there with others are Bill Studholme and John Holloway.