Money-printing will work if controlled

By Bernard Hickey - Sunday Mar 4, 2012

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I argued last week that New Zealand should again look at printing money to build houses and infrastructure in Auckland and Christchurch. We did it in 1936 and we could again as long as it doesn't create inflation.

It sparked a firestorm of commentary and criticism. Money-printing, or quantitative easing, would have to occur with a range of responses.

First, there's a risk of generating inflation - but only if resources are fully employed. Building houses, bridges, motorways, broadband, water treatment and electricity networks takes all sorts of resources, some imported.

One claim is that a burst of extra spending would boost wages and construction material prices. That is true if there are shortages of skilled tradespeople and a lack of production capacity for materials.

Skill shortages must be addressed, but there is something wrong if we can't train the unemployed. Or we could increase immigration, which would also boost the economy.

Construction material inflation is another issue. The Productivity Commission has said that the concentration of ownership of construction material companies (Carter Holt and Fletcher Building) may be a factor in materials costing more here than in Australia.

But it said it was unclear extra competition would cut costs. The report shows material inflation has been marginally ahead of consumer price inflation in the past 15 years, but not greatly so. There is plenty of capacity around at present.

The real problem has been an escalation of building consent costs, driven largely by councils. Therefore, any move to print and build would require central Government to more closely monitor and reform the way local governments charge.

Wage inflation is also a risk, but again there are few signs that it is out of control. Second, there is a risk that money-printing empowers politicians to go on a giant lolly scramble or, even worse, funnel money to "friends" in the large companies that dominate our construction and infrastructure industries.

This would have to be addressed by an independent commission. It would mean any surge in spending with printed money was directed to useful infrastructure that generated economic returns in the long run.

The third criticism is that money-printing would cause a balance of payments crisis as imports jumped, as happened in the 1930s.

But this time we have a floating currency. Money-printing would drive the dollar lower, making imports more expensive and generating extra export revenues. Some say it would also drive up interest rates. That hasn't happened in America, Japan and Europe.