The Case for a Debt-backed Sovereign Wealth Fund

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Introduction

In New Zealand one side of the political spectrum calls for fiscal austerity to rein in debt; on the other, appeals for greater public investment to spur growth. The centre-right often emphasises spending cuts and debt reduction. The objection to debt is actually contrarian to the commonly held "run the country like a business" view. The centre-left leans toward higher spending funded by higher taxes. Yet neither approach has delivered. In fact, New Zealand's economic growth has lagged behind peers for decades, contributing to a persistent productivity gap and a worrying brain drain of young professionals seeking better opportunities abroad.

This article proposes a bold but sensible plan: cut taxes while raising strategic spending, financing it through debt (much as a business would) to invest in assets that generate future returns. This approach could help rescue New Zealand's economy, build a future-focused economic base, and ultimately give young Kiwis a reason to stay.

The Limits of Current Policies

Both National and Labour have tried to manage the economy within relatively narrow boundaries, and each has its shortcomings.

Right-Leaning Austerity

The National Party often stresses fiscal discipline – sometimes likening government budgets to household or business budgets. New Zealand's public debt is low by international standards (net core Crown debt is about 42% of GDP as of 2024). However, treating government debt as inherently bad ignores how real businesses operate. In the corporate world, debt is a normal part of the capital structure, a tool to finance expansion and productivity improvements. Likewise, a government that slashes spending to avoid debt at all costs can end up underinvesting in the nation's future. This cautious approach underscores National's priority on debt reduction – but potentially at the expense of growth opportunities.

Left-Leaning Tax-and-Spend

On the other side, historically Labour-led governments responded to economic challenges higher spending, funded in part by new taxes and higher debt. Yet, a high-tax, high-spending model has its own drawbacks. Increasing taxes too much can dampen private investment and consumer spending, while indiscriminate spending can breed inefficiency or inflation. In short, the Labour approach recognizes the need for investment but often pairs it with burdensome taxation or short-term largesse rather than a long-term investment strategy.

Debt as a Tool for Growth

We need to challenge the stigma around government debt. Debt, in itself, is not evil. What matters is how it's used. Just as a well-run company issues bonds or takes loans to finance new factories, research, or infrastructure (expecting those investments to increase future earnings), a nation can borrow to build assets that expand its future economic capacity. Governments should borrow only to invest and not to cover everyday operating costs. In other words, debt can be sustainable and hugely beneficial, if it finances projects that yield returns.

New Zealand's government has a strong credit rating and historically low debt. Servicing moderate additional debt is quite affordable, especially if funds are channelled into high-return ventures. Consider that current government bond yields are relatively modest (in recent years around the mid-single digits percentagewise), whereas the potential return on well-chosen investments can far exceed that. For example, the nation's sovereign wealth fund – the NZ Super Fund – has earned average annual returns of about 10% over the past two decades by investing in a diversified portfolio. This comfortably beats the cost of government borrowing. If the government can similarly direct borrowed money into productive assets, the growth in value or revenue from those assets can outstrip the interest costs. Over time, this means a stronger economy and potentially a lower debt-to-GDP ratio, as the GDP grows faster thanks to those investments. In fact, one of the surest ways to reduce public debt burden long-term is to grow the economy – and you can't grow an economy that's starved of investment.

Businesses leverage debt for growth routinely. The world's corporate sector, from major listed companies to innovative startups, uses loans or bonds to scale up operations. It's understood that without investment, there's no innovation or productivity gains. It should be no different for government. We need to forget the view that the national budget is like a household (where debt is only an emergency measure).

This is not a call for reckless spending. It's a call for strategic, debt-financed investment. There is a profound difference between borrowing to pay for a short-term operating deficit (which yields no future payback) and borrowing to acquire or build an asset that delivers income or productivity gains. New Zealand has under-invested in many areas, and the costs of this are evident in our economic underperformance. Our labour productivity remains well below the OECD average and significantly behind Australia's – a gap that has widened over the past decades, coinciding with many skilled Kiwis moving across the Tasman for higher salaries. Smart use of debt can help break this cycle by funding the infrastructure and industries that drive productivity.

A Skeleton Proposal: NZ$50bn Debt-Backed Investment

Let’s consider a loose proposal: the New Zealand Government borrows on the order of NZ$50 billion (roughly 12% of GDP), with this amount being borrowed in a staggered manner over a long timeframe. This fund would be dedicated entirely to investment projects and assets expected to generate reliable returns, either directly in cash or indirectly through higher growth and tax revenues. Essentially, this is about creating a diversified public investment portfolio. These funds could go towards modern infrastructure, digital and data infrastructure, energy and resource investments, venture capital and innovation funds. Additionally, this can be done through co-investment with institutional investors. This would mean additional funding, sector expertise, and further motive to provide real returns above the cost to finance the investments.

$50 billion is an ambitious figure, but even if the full $50bn were debt-financed, the debt would be tied to assets on the other side of the balance sheet – it’s akin to taking out a mortgage to buy a rental property. As long as the rent covers the mortgage interest, the debt is sustainable, and the property builds your net worth. The return on investment, if projects are chosen wisely, would outweigh the interest expense, meaning taxpayers come out ahead in the long run.

New Zealand needs strong services/technology-based industries. This could be a way to encourage it, build a diversified and future-focused economy and reverse the exodus of young kiwi professionals.

Conclusion

Convincing the average New Zealander of a debt-funded investment plan is not easy. However, as I have argued, what matters is not the debt itself, but what we do with it. When debt is used to build productive assets, it is not a burden on future generations but a boon. It’s akin to parents taking out a loan to pay for their child’s education – an investment that yields a lifetime of returns for the child (and society), far exceeding the upfront cost. New Zealand, in a sense, needs to invest in its infrastructure, technology, and people to secure a prosperous future.

The economic theory behind this is solid, and examples abound. We can look to countries like Singapore, which transformed from a poor city-state to a high-tech economy in part by aggressive state-led investments and strategic use of public capital. Or consider Norway, which channels its oil revenues into a sovereign fund that invests globally (though Norway’s fund is financed by exports rather than debt, the principle of government investing for returns is the same). We must become as attractive as Australia economically, and that won’t happen by simply pinching pennies. It requires vision and risk-taking.

Overall, running a country “like a business” should mean thinking strategically about long-term returns on investment, and utilising debt effectively instead of shunning it. By cutting taxes to stimulate enterprise and simultaneously boosting development spending via smart debt. It’s a plan that challenges a layman’s wisdom, but as the data and examples show, it’s grounded in sound economics.