

Business Roundtable Welcomes Spending Cap Bill

“The Bill introduced to parliament yesterday as a government measure to place a cap on government spending deserves strong support”, Roger Kerr, executive director of the New Zealand Business Roundtable, said today.

He said the Business Roundtable had been advocating a legislated spending cap since its study *Restraining Leviathan* in 2004. The ACT Party took it up and other business organisations, the OECD and the 2025 Taskforce had made similar recommendations.

“The Fiscal Responsibility Act (now part of the Public Finance Act) has helped constrain deficits and debt but not overall expenditure and taxation. These have continued to grow as a share of the economy. The present high level of spending is holding back medium-term economic growth.

“The Bill would limit the annual increase in core Crown expenses to the rate of inflation and population growth. This is not radical or unrealistic, nor is it a straitjacket. The government’s forecast spending track is roughly consistent with it, as have been the outcomes in earlier parliamentary terms.”

The Bill also allows a government to seek voters’ approval for higher increases in spending via a referendum.

Mr Kerr said the spending limit proposition was much less restrictive than the rule in Hong Kong where the Basic Law requires spending to be held to no more than 20% of GDP. Some US states, for example Colorado, have used similar models, and spending limits are being proposed currently in the context of the US debt crisis. Hutt City Council has a similar rule.

“For New Zealand, a legislated limit would be especially useful in an MMP parliament and when the economy picks up.

“The Bill is well-designed and takes into account issues such as recession and natural emergencies.

He said that the Treasury had earlier been sympathetic to some form of legislated spending limit but, disappointingly, now favours weaker alternatives such as a self-imposed spending cap, a long-term expense objective, and a tighter fiscal management process.

“We have tried all those approaches and they haven’t worked.

“With core Crown expenses at a record high this year (36.4% of GDP), the case for tighter and enduring constraints is compelling”, Mr Kerr said.

“The Business Roundtable urges all parties to focus on the substantial benefits of constraining government spending for the community as a whole and give this Bill their support.”

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