This Year's 2025 Taskforce Report an Important Stocktake

Next month the 2025 Taskforce will be delivering its second report to the government.

It is the most important taskforce reporting this year.

Achieving the goal of catching up with Australian income levels by 2025 would hugely benefit most New Zealanders and alleviate many social problems – stretched household budgets, the availability of high-paying jobs, housing affordability, resource constraints in health, education and environmental protection, and our ability to cope with an aging population.

The role of the taskforce will be to update its assessment of the income gap, monitor whether government policies are closing it, and review its advice on the institutional and policy changes needed to achieve the goal.

Recently there has been a confused political debate about the gap, with the government initially saying it is closing.

It isn't, and, moreover, there was never any chance that it would start closing in this parliamentary term. As former Treasury secretary Graham Scott wrote in the 1984 briefing document, *Economic Management*: "Like a supertanker, the economy will not be quickly or easily altered in its speed and direction."

Due to its predecessor's mismanagement, National inherited an economy that was in recession before the financial crisis struck. Australia came through it without a recession, and in the government's current term Australia's economy (and average incomes) will grow faster than ours.

However, professional economists will soon be able to assess whether the government is on track to achieve its goal. And by the end of its second term, if re-elected, the data will give a clear verdict on whether the government has succeeded or failed.

At this stage no progress is in sight: Australia is still positioned to grow faster than New Zealand. This is confirmed by the latest IMF forecasts to 2015 which show the gap widening further.

The recent debate has focused on the gap in wages between the two countries. The taskforce should look at wages, but in its 2009 report it explained that real GDP per capita in purchasing power parity terms is a better and more comprehensive comparison. On that basis it estimated the income gap stood at 35%. The IMF forecasts that it will increase to 41% by 2015.

Some doubt that New Zealand can regain income parity with Australia. Reserve Bank governor Alan Bollard has said the most we can hope for is "crumbs from Australia's table."

This is defeatist. It may be a political judgment – about whether politicians and the public will support the necessary reforms. But why wouldn't they if the issues and benefits were explained to them fully, simply and intelligently?

It is certainly not a credible economic judgment. Australia's current prosperity is not fundamentally due to mineral resources. It is due primarily to consistent economic reforms stretching back 25 years.

I prefer to ask my economist colleagues: who doesn't think New Zealand could close the gap if it moved to an economic framework similar to that of Hong Kong and Singapore?

Hong Kong's guiding vision is 'Big Market, Small Government'. Singapore has some interventionist policies but it nevertheless ranks after Hong Kong as the freest country in the world.

Both Hong Kong and Singapore have average incomes that are higher than Australia's and are continuing to grow faster.

The view among political journalists is that the government basically rejected the taskforce's 2009 report as being too radical and unrealistic. This view is superficial.

Its general thrust was entirely consistent with OECD advice and with institutions and policies in more successful countries.

In practice, the government has moved in line with many of the taskforce's recommendations and is working on others. Important exercises in train include major expenditure reviews, welfare reform, a Regulatory Responsibility Act, RMA reforms (including water allocation), and employment law changes.

Moreover, the government has also taken or foreshadowed growth-enhancing moves which the taskforce overlooked, including the GST/income tax switch in the budget (estimated by Treasury to add 0.9% to GDP over 7 years), ACC reform and local government changes in Auckland and nationally.

This time I hope the taskforce will do more to quantify the potential gains from its policy recommendations and spell out the benefits for New Zealanders.

The programme would not be a recipe for pain and dislocation – this is a risk only if the government abandons sound policies. The taskforce might, however, present scenarios showing what New Zealand would look like if we achieve the goal and, alternatively, what would happen if the productivity growth decline of recent years is not reversed.

Robert Muldoon failed in his 'vision' of leaving New Zealand no worse than he found it. Helen Clark failed in hers of getting New Zealand into the top half of the OECD. I doubt if John Key wants to go down in history as another prime minister who took the country nowhere.

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