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2025 Report Must be Game-Changing

Shortly the taskforce set up to advise the government on how to close the income gap with Australia by 2025 will submit its report.

The Business Roundtable strongly supports this goal and believes it is achievable, but only with outstanding economic management.

Commentators on the government's first year in office have been saying it has few 'runs on the board' in terms of major policy achievements.

Perhaps the only significant ones are the changes to local government in Auckland and the plan to open ACC up to competition.

The commitments to tight constraints on additional spending in future budgets are important, but harder decisions will be needed to deliver on them.

The taskforce report must be game-changing.

It will need to point out to political parties and the public that big changes to institutions and policies are needed if the goal is not to become as discredited as Helen Clark's 'half way up the OECD income ladder' mantra.

So far the government has been more emphatic about ruling changes out than in. It has said it will not pursue privatisation, raise the superannuation eligibility age, touch Working for Families and the student loan scheme, and adopt a flat income tax.

And it is proposing to spend a massive \$1.5 billion on broadband without, as yet, presenting any economic justification.

Changes like those ruled out, plus many more, will be needed to win the economic Bledisloe Cup. Tinkering simply won't do.

Economic research points to institutions and policies as the key determinants of income per capita. They matter more than factors such as a country's size, location and natural resources. Australia's mineral resources did not prevent its relative economic decline in Fortress Australia days.

The main reason for Australia's relatively good performance since the mid-1980s is the improvement in its institutions and policies and, at least until recently, the consistency with which they have been maintained.

New Zealand adopted similar reforms which led to greatly improved economic performance in the 1990s. However, unlike in Australia, the momentum of reform was not maintained from the mid-1990s on, and policy reversals and a focus on income redistribution rather than wealth creation this decade have undermined productivity and economic growth.

The need for structural adjustment in the economy to reduce external borrowing and debt (by shifting resources into export and import-competing activities) and to raise productivity growth in the private and public sectors are key issues for the taskforce.

A good starting point for the taskforce are the reports by the OECD on the New Zealand economy. These reflect conventional, non-ideological, well-accepted economic thinking.

The OECD has made many recommendations under the headings of government spending, taxation, ownership of enterprises and regulation.

Key ones on spending include a legislated limit on spending growth and a critical review of baseline spending by an independent body.

It has proposed a similar spending cap for councils and said they should be refocused on core (public good) activities.

On ownership, the OECD has criticised recent renationalisations and advocates divestment of state-owned enterprises, particularly in energy and transport. It recommends similar moves for ports. The potential gains from such moves could be in excess of 1 percent of GDP annually.

On tax, the OECD believes the company, personal, trust and PIE rates should be reduced and aligned, and Working for Families should be redesigned. Arguably New Zealand needs to think more in terms of the (essentially flat) Hong Kong and Singapore tax structures (with rates of 20 percent or below) to achieve rapid growth.

On regulation, the OECD has stated that much poor quality regulation has been introduced in recent years and should be reviewed. It advocates, among other things, changes to the Resource Management Act, the introduction of tradeable water rights, not moving ahead of other countries with climate change policies, the elimination of foreign investment screening, and scrapping the Telecommunications Service Obligation.

The OECD has also criticised the re-regulation of the labour market. Employment relations should be essentially voluntary and based on normal contract law, as is the case in the high-growth Asian countries with which New Zealand increasingly competes.

The taskforce's recommendations must constitute in sum a credible programme for achieving the 2025 goal. They will need to go beyond OECD best practice.

Previous government efforts such as the Knowledge Wave were long on talk and short on substance and results. Australia will not be standing still and its trend growth rate is higher than New Zealand's (indicating that without far-reaching reforms the income gap is more likely to widen than narrow).

The taskforce should draw on sound research, undertake modelling or other analysis to test whether its recommendations are quantitatively sufficient to meet the government's goal, and establish a scorecard or similar metrics against which it can measure progress in its subsequent reports.

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