

2025 Taskforce Report Challenges Political Parties

Observing negative reactions to the first report of the 2025 Taskforce, one of New Zealand's best economists emailed me saying his wife was very glad that "circumstances mean our kids have US citizenship and can eventually escape the sinking ship if things go on as they are."

Is history about to repeat itself? On assuming office in 1999, former prime minister Helen Clark declared that her government's "top priority" goal was to get New Zealand into the top half of the OECD by 2010. Later, Clark said she never meant to say the goal would be achieved by 2010. Then she stopped talking about the goal altogether when it became obvious no progress was being made.

The National-ACT Confidence and Supply Agreement laid down "the concrete goal of closing the income gap with Australia by 2025". It acknowledged that "significant improvements" in institutions and policies would be necessary. A high quality taskforce chaired by former Reserve Bank governor Don Brash was set up to provide advice.

Yet in reacting to the Taskforce report, finance minister Bill English has been quoted as saying the goal is "aspirational" rather than realistic. When did concrete become elastic? Is another political commitment about to be broken?

Some commentators have noted that the thrust of the report is in line with what the Business Roundtable has long advocated to raise New Zealand incomes. Indeed it is, but it is also in line with sound economics and the thrust of advice by the OECD – a mainstream economic organisation if ever there was one.

The other main national business organisations, Business NZ, Federated Farmers and the New Zealand Chambers of Commerce, also endorsed the report.

Some of the government's reactions were understandable.

Prime minister John Key rejected the idea of painful reforms. But these are not suggested: governments in the 1980s and early '90s did the hard yards with reforms that resulted in a more efficient economy, and the Taskforce seeks to build on them.

The prime minister also said that he would not break promises on the superannuation age and interest-free student loans.

Governments shouldn't lightly break promises, and it is unfortunate that the government broke its promise to cut taxes last April.

But politicians should have the courage to admit mistakes and remedy them. Former Australian prime minister John Howard promised not to introduce a goods and services tax but later accepted this was a mistake and had to seek a mandate to do so in a subsequent election, which he duly won.

The Rudd Labor government is raising the superannuation age to 67 in a way that gives future retirees plenty of time to plan. This has generated little controversy. Would New Zealanders not accept a similar decision if the prime minister sought a mandate for it at the next election?

Indeed Labor as well as Liberal governments in Australia support many of the orthodox policies recommended by the Taskforce such as a lower share of government spending in the economy, getting governments out of running commercial enterprises, abolishing export monopolies like Zespri, funding public and private schools on more even terms, and stricter welfare policies.

New Zealand must do similar things if it aspires to Australians' living standards.

If the government and other political parties don't like some Taskforce recommendations they should come up with alternatives. There are always alternatives: the issue is whether they work or not (the previous government's didn't).

Among major reform alternatives it is surprising that the Taskforce did not comment on the case for opening up ACC to competition, the need to focus local government on its core functions, and the debilitating effect of MMP (seen by many Australians as an aberration) on good government.

There were other weaknesses. With the international financial turmoil far from over, the Taskforce underplayed the risks of continuing dependence on large-scale overseas borrowing and the urgent need to shift resources from the domestic sector of the economy (especially government activities) to the internationally trading sectors.

It also underplayed the implications for New Zealand, and the lessons for prosperity, of the enormous changes that are occurring around the world, especially the rise of China and India and the relative stagnation of the big-government OECD economies.

Overall, however, the Taskforce has produced a well-argued report, and it is encouraging that major newspapers contained editorials with headings like “Key must act to close gap with Australia.” That will not be easy: Australia is well-governed and well-placed economically by OECD standards, and currently the gap looks set to widen.

The question New Zealanders should be putting to the government and other political parties is, “Do you want to close the gap or not?”

If not, they should come clean and say so, so that young New Zealanders, such as my economist friend’s children, can plan their lives accordingly.

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