

Business Roundtable Questions ‘Strange’ Treasury Advice re Spending Cap Bill and Proposes Strengthening Measures

The Treasury’s advice to the government on the Spending Cap (People’s Veto) Bill constitutes an abandonment of its duty to advise and an inappropriate political judgment, according to a submission on the Bill released today by the New Zealand Business Roundtable. The Bill would, in essence, limit any increase in Crown spending to the annual rate of inflation and population growth, and require a referendum to approve any increases beyond that.

The submission – which assesses the Bill in the context of the big jump in government spending between 2004 and 2008, and analyses Treasury’s reasons in its Regulatory Impact Statement (RIS) for its opposition to the Bill – is strongly supportive of the Bill. It argues that by legislating a spending cap, the government would demonstrate a higher commitment to keeping to its spending plans, which currently lie within the proposed cap, and would raise private sector investor confidence that spending would be similarly restrained in future.

The submission also proposes a number of additional measures and complementary arrangements to strengthen and support the Bill.

Acting Business Roundtable executive director Bryce Wilkinson said that had the Bill been in place since 2004 New Zealand would be in much better shape today fiscally and in terms of international competitiveness and external debt.

“Treasury’s RIS on the Bill acknowledges this and makes a good, positive case for the bill and demonstrates that the loss of spending discipline, particularly between 2005 and 2008, was a prime cause of New Zealand’s current fiscal problems.

“Strangely though, it goes on to oppose the Bill, citing two reasons: first, that legislated constraints on government could lead to perverse outcomes when governments seek to circumvent them; and second that the Bill would not be effective if it is “likely to be overturned, shortly after its introduction, because it lacked widespread and enduring political support”. It then puts forward as an alternative an easily avoided self-nominated rule that entirely lacks credibility.

“It is worrying, to say the least, to see a treasury advising its minister against a measure that its own analysis demonstrates has the potential to provide significant net economic benefits, and even more concerning to see it propose an alternative that could not be expected to prevent a future spending blowout.

“Of deepest concern is Treasury’s abandonment of its duty to advise and its decision to make a political judgment on the matter. It is the minister’s job to assess the politics of the issue, to consider how the debate might be carried and won, and whether it is worth the battle. However the Treasury seems to be saying that any measure that is likely to be opposed in the short term by opposition parties does not merit a supporting Treasury recommendation”, Dr Wilkinson said.

Dr Wilkinson said the Business Roundtable’s submission argues that the credibility of future spending constraints would be further enhanced by measures such as: capping tax revenues per capita and returning excess revenues to taxpayers; a

requirement for a supra-majority of voters to approve increases; a ratchet mechanism for reducing the spending base from its existing inflated level; and a referendum requirement for new taxes.

The submission also recommends complementary measures to increase the constraints on alternatives to ill-justified spending, including the Regulatory Standards Bill which would make it harder to get around a spending cap through regulatory means, and better arrangements for vetting capital spending, making it harder to replace poor quality operational spending with poor quality capital spending.

The Spending Cap (People's Veto) Bill is currently open for public submissions to the finance and expenditure select committee.

The Bill had its origin in the 2004 Business Roundtable report *Restraining Leviathan*.

The submission can be read [here](#)

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For more information contact:
Dr Bryce Wilkinson
Acting Executive Director
Ph: +64 4 499 0790
Email: bwilkinson@nzbr.org.nz

www.nzbr.org.nz