

SETTING THE SAILS

Prime minister John Key observed that the 2011 election was about the economy.

Business people are looking to the incoming government to address critical weaknesses in our economy and implement policies to boost economic growth.

The two main economic problems the country faces are structural imbalances and the slump in productivity growth.

One imbalance is seen in the decline in production by New Zealand's internationally exposed industries while the share of spending by government as a proportion of gross domestic product (GDP) has sharply increased.

Between the years ended June 2004 and 2011, general government spending on goods and services in constant prices rose by 3.4 percentage points of GDP while the share of traded goods production fell by 4.6 percentage points.

One upshot is that imports of goods and services exceeded exports for five successive years from the year ended March 2005, whereas this trade balance had been in surplus in 16 of the previous 17 years.

The government spending boom is also a major cause of the large fiscal deficits.

The productivity slowdown is illustrated by Statistics New Zealand estimates for multifactor (labour and capital) productivity growth for the portion of the economy for which it can be most accurately measured. The trend growth rate was 2.1 per cent per annum for the 1990-1997 economic cycle. It fell progressively through subsequent cycles to 0.9 percent per annum during the last complete cycle in 2000-2006. It was *minus* 0.5

percent per annum from 2006-2010. This slowdown has been accompanied by a substantial increase in the intrusive regulation of commerce.

The huge increases in ill-justified government spending and regulation have surely contributed to the twin economic problems.

Although both problems arose on Labour's watch, National has maintained high levels of government spending and continued to regulate intrusively.

Jenni McManus recently surveyed 40 business leaders on the government's management of the economy over the past three years.

McManus revealed "a widespread perception that the Government ... [had opted] for timid and incremental tinkering around the edges instead of tackling the big – and contentious – issues such as tax reform, superannuation and welfare."

Respondents had "no confidence" that the Government had a clear economic vision.

Fran O'Sullivan's "Mood of the Boardroom" survey reported similar findings. She summed up the advice of business people to the government in these terms: "Harden up, take tough decisions and back yourself to win support for the consequences".

This advice needs to be acted on if, in the words of the prime minister, the boat is to go faster.

What key policies should the government implement?

The top priority should be to sharply reduce government spending and improve its quality.

Lower government spending would help shift resources into the production of traded goods and reduce the pressure to increase distorting taxes.

The Spending Cap (People's Veto) Bill would help achieve and maintain lower government spending and should be passed.

Labour has quite properly put the issue of raising the age of eligibility for New Zealand Superannuation on the table and this needs to be faced. The government could seek a mandate by referendum or through an independent review for a gradual increase over time with a reasonable lead time. This would do much to ease the tax burden on future workers.

A broad review of the regulation of business activities should be undertaken to remove obstacles to economic growth. Less and better quality regulation is required. A key step here would be to pass the Regulatory Standards Bill.

The review of the Resource Management Act (RMA) should address that act's cavalier approach to private property rights. It should be principled and more searching than that proposed in the RMA phase II reforms.

Labour market reforms should increase the parties' freedom to contract, including changes to personal grievance processes.

Implementation of the thrust of the Welfare Working Group's recommendations, including contracting out of employment placement services, should see a major shift of people from welfare dependency into productive work.

The long 'tail' of educational underachievement is a major concern. School choice should be advanced and school management decentralised to enable improved educational performance.

The government has a mandate to apply the mixed ownership model to certain state assets.

There is also scope for increased private participation in large infrastructure projects through greater use of public private partnerships and similar arrangements. Local government should also be required to divest commercial businesses such as airports and ports.

The ACC scheme should be opened to competition and ACC should cease offering accident insurance.

Policies such as those outlined would help address the major economic problems noted above.

The prime minister understands the need to strengthen New Zealand's economic fundamentals to make the boat go faster. Business leaders are willing to work with the government to set the sails to make that happen.

*Roger Partridge is the chairman of the New Zealand Business Roundtable
nzbr.org.nz*