



**1 August 2008**

## **Inflation Targeting – working well for who?**

Reserve Bank Governor Allan Bollard has come out in defence of monetary policy, promoting the view that there is really no other way. The New Zealand Manufacturers and Exporters Association (NZMEA) is challenging our leaders to properly consider alternatives rather than witness yet another cycle of destruction caused by the single minded pursuit of an economic dogma.

Dr. Bollard himself pointed out the inability of monetary policy to control current inflationary pressures saying, "When shocks are persistent, as with oil and food prices currently, it is difficult to judge the appropriate response. Such price rises are driven by international supply and demand. The extraordinary oil price rise in particular has left New Zealand poorer and we all need to recognise this."

This begs the question of why the negative impacts of an overvalued exchange and high interest rates would be tolerated when monetary policy only works under favourable international conditions.

NZMEA Chief Executive John Walley says, "The money supply has not been controlled by the Reserve Bank. High interest rates have caused overvalued exchange rates, strangling the tradeable sector for several years. The cure seems to be worse than the disease, we can't avoid cost driven inflation and the attempt to do so damages the tradeable sector. The fortunes of the economy follow the fortunes of the tradeable sector. If we can't find a better way then New Zealand will continue to be the best mine Australia has – a human capital mine."

"We need to be encouraging productive investment in our economy as productivity is the only cure for input cost driven inflation; the supply side of the economy needs attention."

The NZMEA, amongst others, has promoted a variable savings or GST rate to combat inflation and avoid the problem of offering high interest rates to foreign investors.<sup>1</sup> This would prevent speculative foreign capital increasing the value of the New Zealand dollar and would provide more stable interest rates for investment.<sup>2</sup>

"Other solutions are on the table and have been presented to our politicians. A monetary policy that has a bias against the tradeable sector is unworkable for a small isolated country so reliant on trade. We need to have some open debate about the alternatives so we can find a policy more suited to our place in the world," says Mr. Walley.

<sup>1</sup> 'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>

<sup>2</sup> 'Monetary Policy and Productivity', <http://www.mea.org.nz/document.ashx?id=22>