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Control the money supply and inflation looks after itself

The recent debate regarding the findings of the Finance and Expenditure Select Committee on the monetary policy framework has centred on the argument that 'there is no other way'. The New Zealand Manufacturers and Exporters Association (NZMEA) points out that interest rates cannot alone control inflation of the money supply or the cost price increases exacerbated by international price shocks.

The recent spike in prices is a global event, but New Zealand's money supply is influenced by local policy, and those policies have not been effective. Cost price shocks, our exposure to the worst excesses of global credit liquidity and our massive current account deficit all indicate a need for change.

NZMEA Chief Executive John Walley says, "The money supply has grown driven by the highest interest rates in the developed world. The tradeable sector has been disadvantaged by those interest rates and stripped of margins by an overvalued exchange rate. Many manufacturers have already left showing the severe consequences of the policy."

"As the money supply inflates we borrow more for consumption and falling returns discourage productive investment. At some point the credit flows stop and the consumer party is over."

"Monetary policy has allowed an increase in the money supply and therefore inflation through increased credit flows. Monetary policy has failed to meet its own targets so it is difficult to see why we are persisting with it."

"It may be that other jurisdictions can claim success with their monetary policy but those nations tend to have larger domestic markets, less trade dependency, tolerate more price inflation and have not seen their interest rates blow out to the same extent."

"A continuation of our current policy framework will only see us slip further down the OECD rankings," says Mr. Walley.

"We have to hope that the Finance and Expenditure Select Committee show some foresight and imagination as a justification for the absence of speed in publishing their findings."

The productive economy cannot afford to endure yet another damaging exaggerated economic cycle. There are other options available;¹ we need to find a better way.”

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