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Select Committee misses the point

The Finance and Expenditure Select Committee's findings from the inquiry into the monetary policy framework have finally been released claiming that there is no better way to control inflation and recommending that monetary policy be left as is. The New Zealand Manufacturers and Exporters Association (NZMEA) dispute this claim as viable alternatives have been presented to the Select Committee, which would negate the negative effects of the current system.

Currently our monetary policy has a sole focus on inflation control and the Reserve Bank uses interest rates to effect that control. As the Select Committee pointed out, the effect of this policy on the exchange rate is problematic, but they seemed confused about the alternatives.

NZMEA Chief Executive John Walley says, "Submissions to the Select Committee fell into two camps; those wedded to the status quo, and the real economy that was suffering a protracted overvaluation of the exchange rate. It is clear who the Select Committee chose to listen to, and as a result the tradeable sector will continue to be hammered."

"Investment is a prerequisite of productivity, few take the risk to invest in the long-term development of global niche markets in these conditions, so exports simplify and the economy suffers. The outcome of this Select Committee is to provide more of the same - economic decline and loss of productivity."

"The Committee took too long and missed the point, hopefully this outlook from our politicians will change in the next parliamentary term."

"The Select Committee has pointed to more stable interest and inflation rates as reasons to maintain the status quo, but in a small nation highly reliant on trade, the exchange rate is far more important. New Zealand's inflation rate has tended to mirror inflation globally, so lower inflation in the 1990s cannot be solely attributed to the Reserve Bank Act. The Reserve Bank is looking increasingly ineffective now as the world shifts to a higher cost price inflation environment."

Alternatives presented to the Select Committee have included Interest Linked Saving Schemes and Mortgage Interest Levies, which would have the same affect as interest rate surcharges in reducing consumer spending power, without exposing high interest rates to international speculation and overvaluing our currency.

"The major reason for the rejection of these proposals was the high regulatory costs involved, however, there does not seem to have been any attempt to attach a cost to these proposals or the cost to the economy of exchange rate variability. The Select Committee judged that any advantages under the proposed systems would be outweighed by the costs involved. Again, this is a ridiculous assessment given there was little appraisal of the costs," says Mr. Walley.

"Unfortunately we have missed another opportunity to bring balance to our economy and to change the policy settings that have delivered a recession and a world beating housing bubble. Exporters are left to contemplate another cycle of boom and bust as they choose whether to invest in these adverse conditions."

"This was a dreadful outcome and we will all be worse off because of it."