



15 October 2008

## Labour's plan fails to excite the real economy

Labour has released its Economic Policy indicating a long lost commitment to New Zealand's real (tradeable) economy, but the policy lacks detail on implementation. The New Zealand Manufacturers and Exporters Association (NZMEA) supports this rhetoric, but after nine years of ignoring the real economy, Labour needs to deliver on the details of this plan.

Labour has targeted getting exports to 40% of GDP by 2020 and 50% by 2030, however, previous targets, such as the aim to be in the top half of the OECD in terms of income per capita, don't inspire much confidence.

NZMEA Chief Executive John Walley says, "A focus on the productive economy is the only way out of the economic corner we have painted ourselves into. The targets of 40 and 50 percent are achievable, but not without some serious consideration of how we are going to reduce the risks our exporters face. If the risks don't change, don't expect more exporters or exports – it really is that simple. Single-minded inflation targeting, which has delivered high interest rates and an overvalued currency, make these targets more wishful thinking than any sort of plan."

"Good trade deals and infrastructure investment are helpful, but exporters will only take advantage of these improvements if they can anticipate stability in exchange rates and competitive interest rates."

Labour has announced that it will attempt to coordinate its fiscal policies with monetary policy in order to reduce the impulse to inflation, which forces the Reserve Bank to raise interest rates under our current monetary policy rules. It has also announced plans to make capital more readily available to New Zealand firms through consultation with managers of Kiwisaver funds, and the superannuation fund, on how to facilitate increased local investment.

"A capital investment taskforce is another example of talk masquerading as action. An earlier example is the Manufacturing+ scheme that predictably came to nothing, along with the Select Committee inquiry into monetary policy," says Mr. Walley.

"Monetary policy and our tax rules underlie our competitiveness in the tradeable sector. We don't need more talk, we need better rules that support and encourage exporters to invest and expand."

"Innovative growth depends on investment in research and development, plant and process development, and people development. Labour has increased incentives for R&D, but the current monetary policy framework has delivered ever increasing trade deficits rather than investment, so changes are needed if improving our tradeable sector is a serious target."

"A system that targets inflation without overvaluing the exchange rate must be a priority.<sup>1</sup> Where is the leadership on this issue?" asks Mr. Walley.

"Labour has stated its intention to work with exporters to achieve these targets, but Government must simply focus on creating rules that invigorate the export game."

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<sup>1</sup> 'Innovation, Growth and the High Cash Rate', <http://www.mea.org.nz/document.ashx?id=38>  
'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>