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Tax cuts hide flawed policy

In the wake of Labour's first tax cuts and the announcement of National's tax package, a lack of focus on wealth creation in the economy has been clearly demonstrated. The New Zealand Manufacturers and Exporters Association (NZMEA) is calling for a wealth creation action plan from the political parties, rather than simply focusing on how to spend what we have.

The race to see who can give consumers the largest handouts takes the emphasis away from the real issues in the election. Increasing consumption, ignoring the productive sector and hoping for the best is not a viable plan for economic growth. New Zealand's vulnerability to the global economic crisis can be attributed to our continuing and cumulatively massive current account deficit. Unfortunately debt has been our solution to make ends meet. Debt for investment is one thing, but debt driven consumption is something quite different. This is the factor that has made New Zealand among the 13 most vulnerable nations to the financial crisis according to Businessweek; a list that, apart from New Zealand, comes entirely from Eastern Europe and Asia.

NZMEA Chief Executive John Walley says, "Personal tax cuts are all very well for people with jobs, but with more and more job losses in the news and rising unemployment there needs to be much more activity in the real economy. This will not happen without greater stability and improved returns. An increased focus on the tradeable economy is the best way of ensuring that our economy grows and employment and wages rise."

"The financial crisis has proved that exposing our country to the fickle and damaging affects of speculative capital flows has failed the real economy, so it is time for our policy makers to debate new solutions that will support and add lasting value. In this mess there is an opportunity, but thinking has to change. Higher value in the economy is about new products, new plant and process, and more highly skilled people. Improvement in these areas can only follow investment, and investment follows the promise and reality of decent returns from the risk and effort."

"A reduction in risk will see an increasing investment in these areas. If inflation targeting mechanisms that drive up our interest and exchange rates are changed, then we will have a far more stable environment for productive investment aimed at export markets. Better returns will cause capital to flow towards these firms naturally, instead of being forced there through Government controlled investment funds," says Mr. Walley.

"Investment decisions are made on the basis of anticipation of longer-term pay offs. If we change our focus from short-term 'feel good' outcomes to longer-term stability for investors in the real economy then, and only then, will we see our prospects improve."