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Balanced Government needs to balance the economy

Policy balance is the key to reducing risk and encouraging investment in the development of high value exports say the New Zealand Manufacturers and Exporters Association (NZMEA). National has gone to great lengths to ensure a balanced government and needs to take the same approach with the economy to improve the outlook for long-term growth. If the imbalances in New Zealand's policy settings were not evident before the financial crisis began, the collapse of the housing market and the fall in domestic demand have certainly exposed them for all to see.

NZMEA Chief Executive John Walley says, "The idea of balance is straightforward, but it sets up the broad success of an economy. The competitiveness of our policy settings compared to those of our international rivals determines both where a business is likely to locate itself and the returns that firms located in New Zealand can extract from their activities and products. How we are taxed, whether it is on income, capital gains or carbon emissions, will determine which sectors of the economy enjoy the most growth; get it wrong and we will continue to lose ground to our competitors."

"With our economic system as it is, we have higher interest rates than the rest of the developed world, a threatened R&D tax credit, slower tax write-offs for investment in patents and plant, poor enforcement of local standards, and no mandatory country of origin labelling to enhance New Zealand's brand. These are all things that are evident in other developed nations. Our balance is firmly loaded against our tradeable economy."

"Domestically we currently tax income, but do not tax capital gains effectively. This creates a bias towards asset investments that, over time, produce little in the way of jobs or income for the country. Furthermore, the same monetary policy that creates high interest rates that deter investment, also overvalues our currency and makes it hard for our domestic and external economies to succeed at the same time. Foreign investors buying New Zealand dollars to chase our high interest rates drive the value of our dollar upwards, decimating returns for exporters. This flooded New Zealand with credit, fuelling further inflation for a period before eventually stopping domestic demand and stalling the economy. This boom and bust cycle characterises New Zealand's economy and exacerbates the risks faced by those investing in any long-term tradeable developments."

"The first move towards better policy balance must be a review of the Reserve Bank Act," says Mr. Walley. "Changes that bring interest rates and exchange rates in line with risk and trade will bring better balance to the economy.¹ Alternatives that will have this affect are available and have been presented to our policy makers."²

"The combination of that stability plus efforts to stimulate the real economy through R&D tax credits, tax write-offs for productive investment, country of origin labelling and enforced standards compliance, would level the playing field, encourage investment that will increase productivity, bring balance to our economy and increase our international trade competitiveness. This would extend our export portfolio and increase export returns."

"If there is one lesson from the financial crisis it is that we need to pay our way in the world – that means borrowing less and exporting more."

¹ 'Innovation, Growth and the High Cash Rate', <http://www.mea.org.nz/document.ashx?id=38>

² 'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>