



## **MEActive – August 2009**

### **CEO Report**

#### **Bringing the advice together**

So far the National led Government has commissioned a number of groups to look at ways to upgrade New Zealand's performance. The two most prominent groups are the Tax Working Group led by Professor Bob Buckle and the 2025 Productivity Taskforce chaired by Dr. Don Brash.

Both groups seem to have ignored the Government's advice to keep their recommendations in line with political orthodoxy, instead floating ideas which will be seen as controversial by Government, but will also have a greater payoff to the economy. To its credit the Government has softened its stance on some of these issues, and is now waiting for the findings of the groups before deciding on their course of action.

The Tax Working Group has already decided that they favour a higher GST rate and lower personal and corporate taxes, and judging by previous comments they are likely to recommend a broadening of the tax base via land or capital gains taxes. Don Brash has also warned that fairly radical changes will be needed if the Government is to reach its goal of matching Australia's income per capita over a decade or so. Both groups seem to recognise that more of the same, or minor tinkering with the policy framework will simply deliver more of the low growth, low productivity outcomes that have become the norm for the New Zealand economy.

Government will face two challenges:

1. Selling the changes to the public.
2. Implementing changes in an efficient way.

Events of the past couple of years have called into question a number of policies that were seen as sacrosanct. In past years the prevailing view was that unending asset appreciation would support the increased debt needed to maintain our lifestyles. As asset values have tanked we need to look to the real economy that demands a very different approach. Policy changes that would have been unthinkable three years ago are fast becoming mainstream. That should help with the first challenge.

Other than in the mid 1980s policy changes have been introduced in a piecemeal fashion. The Working for Families scheme for example gives money back to families that have previously had taxes taken away from them. This causes unnecessary administration costs. Such initiatives are better delivered through tax system thresholds, where possible, to remove this inefficiency. It will also be important to see any radical changes introduced overtime so that people adversely affected by the changes are able to accommodate them.

A cohesive range of policies are needed to lift jobs and the real economy. Initiatives such as a competitive tax system that encourages innovation, monetary policy that creates stability for exporters and supports investment in export growth, and immediate write downs on productive equipment all have a complementary affect that will help boost the tradeable sector. The will and the ability to implement these changes will have a big part to play in our future economic path.