

## MEActive – February 2010

### CEO Comment: ‘Step change’ little help to manufacturers

John Key promised a lot and delivered little for productive firms in his opening address of 2010. What had been built up as a step change that would start to redress an imbalanced economy to promote growth, ended up being an endorsement of much of the same failed policy framework.

The Tax Working Group had found that the tax system was broken and broadening measures to include property were needed to reduce the reliance on corporate and personal tax.

John Key agreed with the findings of the tax working group stating that, “The Government agrees with the Tax Working Group that New Zealand relies heavily on the taxes most harmful to growth, particularly corporate and personal income taxes; that there is a hole in the tax base around the taxation of property.”

However, he then ignored that conclusion by ruling out possible remedies to the problem saying, “In particular, we will not be developing any proposals for a land tax, a comprehensive Capital Gains Tax, or a risk-free return method (RFRM) for taxing residential investment properties.”

This decision to continue to incentivise investment in non-productive assets over productive firms will have a significant impact on the shape of the economic recovery. The rebalance towards the tradeable parts of the economy seems some way off.

As Brian Gaynor illustrated in this table in the Herald, the tax imbalance has had a pronounced affect on business investment.

<b>BUSINESS v HOUSING</b>				
<b>Housing is the clear winner in New Zealand</b>				
		<b>LATEST</b>	<b>CHANGE</b>	<b>DECADE AGO</b>
<b>Bank lending</b>	To individuals	\$165.4b	+175.2%	\$60.1b
	To business*	\$87.5b	+85.8%	\$47.1b
<b>Interest rates</b>	Floating mortgages	6.44%		6.50%
	Business lending rate	9.85%		7.38%
<b>Asset values</b>	NZ housing values	\$568b	+163.0%	\$216b
	NZ stock exchange	\$43.7b	-14.5%	\$51.1b
<b>Stock exchange/GDP ratio</b>	Australia	92%		95%
	NZ	24%		49%
<b>Housing values/GDP ratio</b>	Australia	277%		218%
	NZ	316%		209%
<b>NZ dollar</b>	US dollar	67.2c	+26.3%	53.2c
	TWI	62.1	+8.9%	57.0

\*Excluding agriculture / HERALD GRAPHIC

Bank lending to businesses has grown at less than half the rate of lending to individuals and the lack of investment in the stock exchange is particularly telling.

There has been a lot of talk over the years about how a Capital Gains Tax is unpalatable to voters, however, more investment in productive activity creating more and better jobs, increasing incomes, making housing more affordable and reducing personal tax rates, as a result of the broader tax base, all sound like very politically saleable ideas.

There seems to be a consensus that broad based, low taxes are fundamental for jobs and growth; all that is missing is the will to fix the problem.

New Zealand Manufacturers and Exporters Association