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Dr Don Brash
Chairman
2025 Taskforce
c/o The Treasury
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Dear Dr Brash

I am aware that the 2025 Taskforce is in the process of finalising its report to the Government on how New Zealand can close the income gap with Australia by 2025.

You will recall that we met with you on 1 September and subsequently provided you with further written information on key issues such as the RMA, the exchange rate, the ETS, broadband, and water storage.

While these issues are all important I believe it is equally if not more important for the Taskforce to emphasise the need for a coherent wider policy framework that aligns all government policies and decisions, including those relating to spending, with the goal of promoting the productivity and competitiveness gains we need to catch up with Australia. It is also crucial that this applies to both local and central government.

Without a coherent policy framework that is adhered to by all tiers of government there is a risk that policy decisions (including those around legislation and spending) will at best muddle along in isolation and at worst be in direct conflict with each other.

Over the past decade New Zealand has stagnated, squandering a largely benign economic climate. It is hugely disappointing that the reform impetus of the 1980s and 90s was stalled and were in some cases reversed. We have seen huge increases in both local and central government spending and it is impossible to comprehend how we can grow our economy when central and local government spending is approaching 50% of GDP and rising.

Bigger and growing government has been very effective in insulating the domestic non-tradable economy from the sharp edges of recession. However, the tradable economy, which generates this country's wealth, has had no such insulation and if anything it has had to bear the brunt of economic adjustments, most notably through the exchange rate. This makes it very hard for the necessary rebalancing of economic growth from the non-tradable to the tradable sector.

Federated Farmers is deeply concerned about the implications of bigger and growing government on the conduct of monetary policy. The Federation remains a strong supporter of the framework set out in Reserve Bank Act 1989, including political independence and its objective of price stability. Although we have some reservations about the operation of monetary policy over recent years (as set out in our submission to the 2007 Finance & Expenditure Committee Inquiry), the biggest problem in our view is that wider government policy, including fiscal policy, has and continues to undermine the Reserve Bank and makes it harder for it to do its primary job of controlling inflation.

The answer to getting the rebalancing of growth will not be found in trying to fix the exchange rate or in pursuing extreme monetary policy prescriptions such as 'quantitative easing'. The answer is in ensuring that wider government policy works in tandem. This is what happened in 1990/91 and 1998/99 where on each occasion there was conservative, orthodox fiscal policy, wider policy reforms were undertaken, and monetary policy was allowed to do its job. The recessions were felt quite sharply by the domestic economy (and were politically unpopular as a result) but they helped keep the exchange rate lower for longer and the rebalancing of the economy ultimately ushered in sustained periods of strong export-led economic growth. What we have seen in 2008/09 has been very different: a large fiscal stimulus that has taken the sharp edges off the recession for the domestic economy but has not allowed the necessary rebalancing of the economy that took place in 1990/91 and 1998/99.

Federated Farmers therefore urges the Taskforce to carefully consider the interaction of fiscal and monetary policy (and indeed wider reforms of the economy). We believe it should urge the Government to promptly un-wind its fiscal stimulus and target a steady reduction in the size of government. If the Government does not signal an un-winding of the fiscal stimulus and a credible spending target then our concern is that the Reserve Bank will be forced to tighten monetary policy too soon.

We therefore recommend that the 2025 Taskforce urge the Government to adopt a target for Core Crown Expenses of less than 30% of GDP by 2014 (currently 37% of GDP). While this will be a challenge to achieve it should not be a radical idea as Core Crown Expenses were under 30% of GDP as recently as 2004 and 2005.

Finally, on the matter of wider reforms, Federated Farmers strongly supports the report of the Regulatory Responsibility Taskforce and its redrafted Regulatory Responsibility Bill.

Federated Farmers has always taken a strong interest in regulation and the implications for and impacts on farming businesses. We acknowledge that a level of regulation is necessary for an economy but excessive or poor quality regulation can pose significant costs far outweighing the benefits. We believe that measures over the past decade to improve the quality of regulation have not had the desired effect.

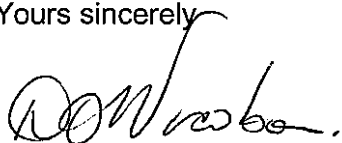
The Regulatory Responsibility Taskforce did an excellent job in a short time and it has produced a high quality report. The Federation considers that the Taskforce has addressed the concerns expressed by the Commerce Select Committee and we submit that the re-worked Bill will make a great contribution to meeting the objectives of the recent *Government Statement on Regulation: Better Regulation, Less Regulation*.

We are particularly pleased that the report has reinforced the importance of property rights and the principle that takings or impairments of property should be fully compensated. We also completely support the Taskforce's recommendation that further work should be done on making the Bill applicable to local government and on the appropriateness of extending the provisions of the Public Works Act to provide compensation more generally.

We therefore recommend that the 2025 Taskforce urge the Government to advance the Regulatory Responsibility Bill as a high priority.

I would be very happy to discuss with you the points I have made in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read "Don Nicolson". The signature is written in a cursive style with a large initial "D" and a long, sweeping underline.

Don Nicolson
President