

2025 Taskforce
PO Box 3724
Wellington
w: 2025taskforce.govt.nz
e: brad@contextcoms.co.nz
p: 021 784 101



MEDIA STATEMENT

Wednesday 3 November 2010

Embargoed Until 1.30pm

2025 TASKFORCE – SECOND REPORT 2010

NEW ZEALAND NEEDS WORLD-LEADING PRO-GROWTH POLICIES

An unremitting focus on growth means the Government should adopt growth-promoting policies that match the world's best, wherever they are found, 2025 Taskforce Chairman Dr Don Brash said.

The Taskforce's second report builds on last year's 35 specific recommendations. It fleshes out the arguments in areas like size of government, research and development and foreign investment, and adds new points on issues like public-private partnerships and the hazardous substances and new organisms regime.

"The Government should assess all policies against a requirement that they contribute to growth, weeding out those that don't. The Treasury and the Productivity Commission should be expected to advise on this," Dr Brash said.

The focus on growth will mean:

- *Lowering government spending and tax rates.* New Zealand's primary fiscal deficit is now the highest it has been for several decades. This deficit is structural – it does not go away with the recession. Government spending has grown very rapidly over the past five years, and the gap between New Zealand and Australian government spending is now much larger than previously, as a proportion of GDP. Large deficits are helping hold the real exchange rate at the current high level, thereby inhibiting export growth. Government spending should be quickly reduced to the 2004/05 level of 29 percent of GDP.
- *Shifting the public-private sector boundary.* Government should withdraw from commercial activities. There is a strong case for the full or partial sale of government commercial operations, not so much to reduce government debt or eliminate gross inefficiency – the rationale for state asset sales in the

eighties and early nineties – but to allow the private sector to maximise the potential of those businesses. Similarly, there is a strong case for the use of public-private partnerships, drawing on lessons from their widespread use overseas, including in Australia. More private provision of health and education services is needed, to improve outcomes and to reduce costs to the taxpayer. There should be a stronger return-to-work focus in welfare, and the age of eligibility for New Zealand Superannuation should be raised.

- *Public investment projects to be justified by the business case.* It is crucial that state investment in infrastructure is only undertaken when robust and transparent cost-benefit analysis shows it is warranted. We should know whether, for example, building Transmission Gully will provide a net benefit to the economy.
- *Making Research and Development investment attractive to business.* A better overall business environment will tend to lead firms to want to spend more of their own money on R and D. The evidence is weak that publicly-funded R and D generates growth, but better value could be achieved by restoring full contestability to government R and D funding. Much valuable research is done in universities, and there would be gains from better governance in that sector.
- *Removing regulation that curbs productivity and innovation.* This should include a fundamental review of the Resource Management Act, as well as increasing labour market flexibility, and in particular restoring the youth minimum wage – the removal of this has greatly exacerbated the dramatic increase in youth unemployment. The overly restrictive regime around hazardous substances and new organisms is diverting fundamental and commercial research to Australia and elsewhere, and should be reviewed.
- *Being more open to foreign direct investment.* In just a few years, New Zealand's foreign investment regime has gone from being among the most open to one of the most restrictive in the OECD. More foreign investment is vital to closing the gap with Australia – we need to be more attractive to foreign investors than is Australia. As far as possible, we should treat foreign investors on the same basis as domestic investors.
- *Introducing better processes for vetting the quality of government spending and regulation.* This should include a Regulatory Responsibility Act, and serious consideration should be given to institutions such as a taxpayers' bill of rights or an independent fiscal council.

ENDS

The report will be posted on the 2025 Taskforce's website at 1:30pm:

<http://www.2025taskforce.govt.nz/fromthetaskforce.htm>

Inquiries: Brad Tattersfield, Context Communications
brad@contextcoms.co.nz or 021 784 101