

2025 Taskforce Report: Answering the \$64,000 Question

Questions and Answers

General policy questions

Q: Is NZ on track to maintain its relative income position versus Australia over the next two to three years? How about through to 2025? If we do nothing significantly different, are we on track to maintain our relative income position versus Australia?

Our judgement is that there is no reason to think the gap will narrow given current policy settings. There is a significant risk that it may widen over the years ahead, especially if Australia grows faster than currently forecast.

Q: If Australian income is around 35 per cent above New Zealand's (and has been so since perhaps the mid 1990s), what exactly does the measure reflect? How do NZ incomes compare with the various states e.g. Tasmania, South Australia, Queensland?

The 35 percent gap refers to GDP per capita, which measures the value of what each economy produces within its geographical borders per capita. This does not directly measure income, but is the most commonly used economic indicator to demonstrate relative economic performance.

New Zealand's GDP per capita is currently less than that in every Australian state, as indicated in the following table (nominal):

Region	GDP per capita (AU\$, 2008)
Western Australia	\$73,700
Northern Territory	\$72,300
ACT	\$69,000
AUSTRALIA	\$53,500
New South Wales	\$51,900
Victoria	\$51,200
Queensland	\$50,700
South Australia	\$46,200
Tasmania	\$43,000
NEW ZEALAND	\$38,400

(Source: Australian Bureau of Statistics and Statistics New Zealand – figures converted to 2008 Australian dollars using current prices and OECD purchasing power parity exchange rates)

Q: Is progress required across all policy fronts identified in the Taskforce's report in order to narrow the income gap? Are some recommendations more critical than others – and if so, which ones?

The Taskforce believes that policies of the type and breadth recommended in the report should be adopted to give New Zealand the best chance of catching up with Australia. This means substantial cuts to government spending and tax, significant improvement in business regulation, and extracting much better value from government assets if New Zealand is to catch up with Australia.

Questions of tax design need to be considered by tax experts. The scenarios in the Taskforce's report are for illustrative purposes only, to demonstrate what tax reduction could be achieved if government spending was reduced to less than 30% of GDP (as it was in 2004/05).

Q: Do we have any chance of permanently raising our income levels compared to Australia if we don't have a prolonged period of weaker NZD/AUD cross rates?

Yes we can – while a lower NZD/AUD exchange rate would make it somewhat easier, the value of the New Zealand dollar is already historically low compared to the Australian dollar. Over long periods of time, stronger productivity performance relative to Australia and successful economic reform could well mean a higher NZD/AUD exchange rate.

Q: Did the Taskforce consider options for better managing New Zealand's exchange rate?

Yes. A lower or more stable exchange rate would be "nice to have". The Taskforce looked at a variety of options that submitters think could achieve this. Some – notably a Singapore-style managed rate – would not work in New Zealand in the Taskforce's view. Others – notably currency union with Australia or the United States – could generate some gains but would also come with very substantial risks. On balance the Taskforce thinks that they are not worth the cost.

Administrative questions

Q: What is the budget of the 2025 Taskforce through to June 2012?

\$477,000 over three years.

Q: How much of that budget has now been spent?

To date, the Taskforce has spent approximately \$150,000 out of a total budget for 2009/10 of \$217,800.

Q: When was the Taskforce established and how often has it met?

The Taskforce was announced on 21 July 2009, and its membership was announced on 19 August. Since then, the Taskforce has met 11 times between 7 September and 23 November. The first meeting all Taskforce members were able to attend was on 5 October.

Process questions

Q: How were decisions made by the Taskforce regarding policy recommendations? Was it all by consensus after discussion, or were there occasions when a vote had to be taken?

The report represents the collective view of the Taskforce, and no votes were taken.

Q: Is this report from the Taskforce the first of many, or is it a one-off? Will the Taskforce issue updated reports to measure progress in efforts to close the income gap with Australia?

The Taskforce has been established for a period of three years. The Taskforce is required to report each year on the Government's progress towards the goal of closing the income gap with Australia by 2025. The next report is due by October 2010.