

2025 Taskforce
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MEDIA STATEMENT

Monday 30 November 2009

Embargoed Until 1.30 pm

GOVERNMENT CHOICES MAKE IT HARD TO CLOSE THE INCOME GAP

The 2025 Taskforce says that poor choices made by successive governments explain why the New Zealand economy isn't doing better.

“Successive governments, with only short-lived exceptions, have failed to grapple with the full extent of our economic decline, and with what it would take to staunch the exodus of our young people.” Taskforce Chairman Don Brash said today.

“Governments have a vital role in a huge range of areas: from international relations and defence, to maintaining law and order, enforcing contracts and administering regulations; from funding and where necessary providing important social services to conserving and promoting the nation's natural and cultural heritage. Governments set the “rules of the game” and they need to do these things excellently and efficiently.

“However, the overwhelming historical and contemporary evidence, both domestically and internationally, is that the best route to much higher living standards is to empower markets, and the people and firms working within them.”

Dr Brash said this practical observation had shaped the recommendations in the Taskforce's report. It had found no evidence that governments can improve living standards by trying to identify and back apparently promising sectors or industries, attempting to tilt the playing field one way or another, or becoming a more active participant in business itself.

“We’ve tried that sort of approach many times before, and it has failed every time,” Dr Brash said. “Government officials and Ministers just don’t have the information or the incentives to get such judgements right.

The Taskforce spent a lot of time looking at a wide range of common explanations for why New Zealand had fallen from being roughly on a par with Australia for most of our history to there now being a very significant gap, Dr Brash said.

“It is very clear that our problems have nothing to do with Kiwi culture or demographics; our size and distance from the world; who owns our houses; the quality of our entrepreneurs, managers and workers; a lack of minerals; or the way we run monetary policy.

“New Zealand’s relative decline is one of the most stark in modern history. The Taskforce’s report focuses on what we have and haven’t done in response, and on why the income gap isn’t closing again now. Our conclusion is that New Zealand simply has not consistently done what is required. Reversing a sharp decades-long decline requires making choices which governments have only rarely been willing to make consistently.”

Dr Brash said New Zealanders therefore shouldn’t be surprised the country was currently failing to catch up with Australia and other OECD countries.

“The policies we’ve been running over the last 10-15 years fly in the face of well-established international evidence about what works and what does not. We have:

- increased tax rates, and in particular effective marginal tax rates for the middle class
- expanded the role of the state in business, including through an increasingly constraining web of regulation
- failed to demand value for money from government spending

“And, over the last five years in particular, total government spending has been increased hugely, crowding out room for productive private sector activity.

“Countries that are fast-growing, and successfully closing the income gaps, don’t do any of these things.”

Dr Brash said it was even more important for New Zealand to empower people working in markets than for better-off countries.

“Closing a big income gap is much more challenging than just maintaining a position near the top of the OECD league tables. It is much more important for us than it is for already-rich countries like Norway, the United States, or perhaps even Australia, to get the “rules of the

game” right. If New Zealand is going to once again match these sorts of countries, we have to adopt the policies and institutions that will enable our people to make the most of themselves and which mean that strong, competitive and innovative firms see New Zealand as among the best places in the world to do business.

“Markets excel in helping ensure we get the most out of what we have, both now and in the future. Competitive markets are powerful in making space for innovations, rewarding success and weeding out failure. We recommend governments focus primarily on removing obstacles which dull incentives to work, save and invest, and that limit the ability of markets to work well.

“Adjusting the balance of the whole economy away from government and towards competitive markets is, in our unanimous view, the only credible way for the Government to help New Zealand entrepreneurs, managers and workers lift incomes at the pace we need to achieve the Prime Minister’s 2025 vision. In turn, the evidence is also clear that it is only higher national income, not bigger government, that will deliver the better social, environmental and other values that New Zealanders rightly aspire to,” Dr Brash concluded.

END

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

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

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