Answering the $64,000 question

2025 TASKFORCE

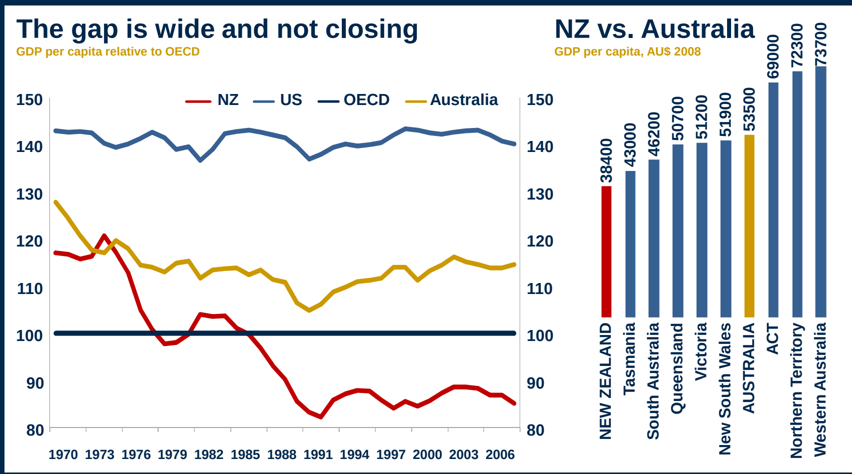
Context

- Established by the National and ACT Confidence and Supply agreement
- "Our vision is to close the gap with Australia by 2025" – Hon John Key, Prime Minister

Role:

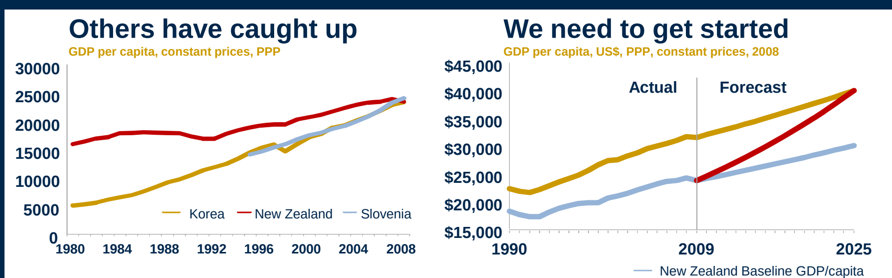
- make recommendations
- report annually on progress

Comparing our economic performance



Source: Australian Bureau of Statistics and Statistics New Zealand

How big is the gap?

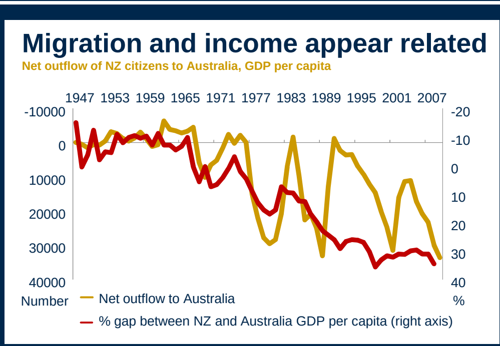


Source: OECD and Statistics NZ

The $64,000 question: For an average family of four, the gap is around $64,000 per year.

Catching up means per-capita growth of 1.8% p.a. more than Australia. If we don't start now, it will get much harder.

Why does it matter?



- People migrate for many reasons – not just higher wages
- As the gap has widened, so has net migration of NZ citizens
- Current outflow is comparable to Ireland during 1950s-1980s

Causes

- **Myths:** Size; minerals; investment in housing; past reforms; New Zealand's monetary policy
- **Primary cause:** Poor policy choices by governments over long periods (notwithstanding intervals of outstanding reform)
- E.g. over the last decade, New Zealand has:
  - Increased EMTRs
  - Increased subsidies and concessions
  - Increased state ownership in business
  - Imposed heavier regulation on the labour market

What we are <u>not</u> recommending

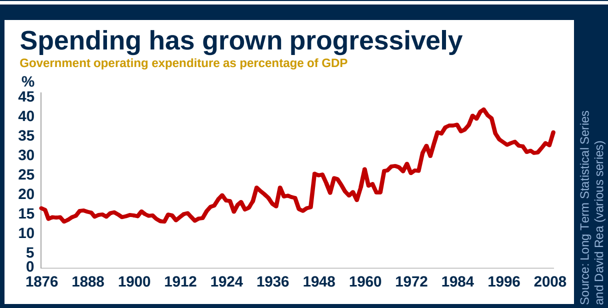
- We heard proposals but do not recommend:
  - Increased government funding for R&D
  - Picking winning sectors, industries or firms
  - Compulsory private saving
  - New or enhanced government financial institutions
  - Changing the exchange rate regime
- Typically these address symptoms – our focus is on getting the overall economic environment right

What we <u>are</u> recommending

- “Governments cannot make businesses ‘up their game’. They can only make it easier and more worthwhile”

  – submission from EMA Northern
- Governments can remove obstacles and sharpen incentives:
  - Government as spender
  - Government as tax-collector
  - Government as owner of significant assets
  - Government as law-maker/regulator

Government as spender

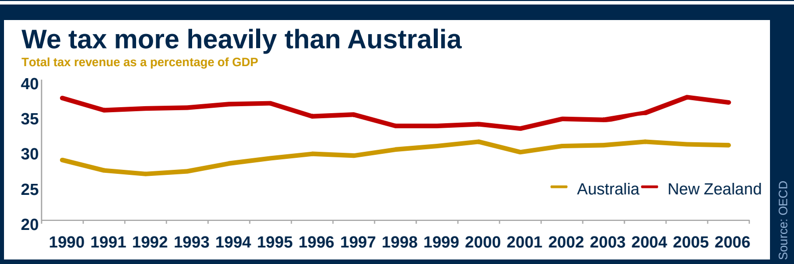


- Government spending was reduced relative to GDP in the late 1980s and 1990s
- Spending has accelerated over the last 6years, crowding out private sector activity and the opportunity to reduce taxes
- Core Crown expenses are now 36% of GDP, up from 29% in 2004/05
- **Recommendation:** Reduce Core Crown expenditure to 2004/05 levels as a share of GDP within three years, then cap in real terms per capita

Government as spender (2)

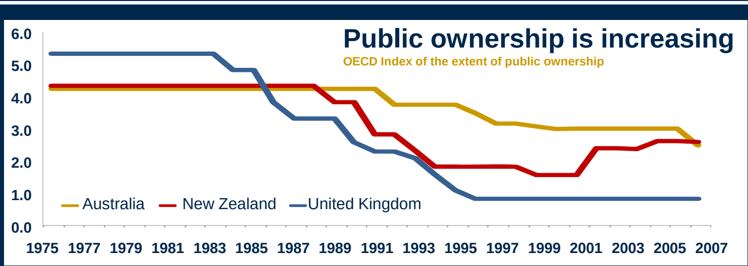
- We also recommend further extensive reform of government services, for example:
  - **Welfare**: Significant reform – get people back to work, utilise skills, reduce costs
  - **NZ superannuation**: Significant reform – increase working population, reduce costs
  - **Health**: Funder-provider split, fewer universal subsidies – increase value from health system
  - **Education**: Governance reform in schools, tertiary institutions – increase value from education system

Government as tax-collector



- Total tax take: Relatively high, discourages enterprise and investment
- EMTRs: Discourage participation by working families, reduce rewards
- Tax on capital income: Particularly distortionary, discourages investment
- Many options if government spending is reduced as recommended, for example:
  - Align top rates for income / business / trust at 20%
  - Dual tax system: Labour income (e.g. around 25%) and capital income (e.g. around 12.5%)
- Reform Working for Families
- Cost: $7 billion, funded by spending reductions to 2004/05 levels.

Government as owner of assets



- Government is often not a good owner:
  - Commercial assets often perform poorly
  - Investment in non-commercial assets often has little regard to cost-benefit analysis
- Recommendations:
  - Sell all commercial assets where there is a competitive market
  - Wind up New Zealand Super Fund and use proceeds to repay debt
  - Subject all new investments to rigorous transparent cost-benefit and regulatory tests
  - Allow exploration for, and potentially mining of, minerals on Crown land

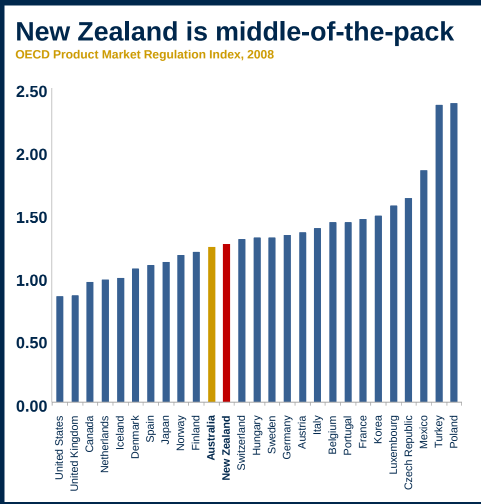
Government as law-maker/regulator

Estimate:

Up to $^{1}/_{3}$ of the income gap could be closed if NZ adopted OECD best practice

Recommendations:

- **Consistent application of the principles in the Regulatory Responsibility Bill**
- **Further reform of RMA; labour law; water rights; tariffs; overseas investment; producer boards**
- **Establish a New Zealand Productivity Commission**



Source: OECD

Way forward

- We believe that the policies we are recommending will give us every chance of closing the gap
- This will require determined consistent political leadership over successive governments
- We hope that this report will be the start of a considered public conversation about how to close the gap
- Over time, this could create a path forward