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Mr Don Brash
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Via email: secretariat@2025taskforce.govt.nz

Dear Don

2025 Taskforce: Comments on Report

Broad observations

I am in general agreement with the thrust of the recommendations made in the Report.

The broad principles appear appropriate:

- reducing the overall level of taxation, and the extent to which resources are channelled through the public sector;
- reducing the degree of provision of welfare to the middle-class;
- encouraging a greater proportion of the population to engage actively in the workforce;
- encouraging higher levels of savings and investment; and
- providing a simpler and clearer regulatory framework.

Clearly, this has to be achieved within a framework which protects the position of the poorest and most disadvantaged in society.

The weakest aspect of the Report concerns the relationship between New Zealand and Australia.

Given that the stated objective of the Report is to help close the gap between New Zealand and Australia the report underplays the obvious mechanism for doing this, that of more closely integrating the two economies. At the extreme, if the two economies were perfectly integrated, the living standards would converge.

Accordingly, a fundamental objective of reform has to be to make it easier for New Zealand companies to do business in Australia. That is, we need to ensure that barriers between the economies should be minimised. With the free movement of people, and of capital, regulation is the main remaining barrier. Rather than trying to create a separate New Zealand model of regulation, the gains from mirroring Australian regulatory structures more closely, seems likely to provide greater advantages.

Other comments

Cost of capital: Note that the Witmer's Bank of Canada Working Paper 2008-21suggests that the cost of equity is lower in New Zealand than in Australia.

Currency volatility: One of Australia's advantages during recent periods when the currency is "low" has been its ability to scale up quickly and significantly its exports of services, most notably in education and tourism. It is important that the New Zealand economy develop and retain the capacity to respond flexibly to currency shifts. I would prefer that the report placed greater emphasis on the desirability of enhancing economic flexibility rather than going to specific solutions.

Compulsory superannuation: The Australian model does appear to have boosted domestic savings, albeit by rather less than the nominal rates as people adjust to compulsion by reducing other forms of savings. Compulsory superannuation does have two other important impacts:
it increases the wealth of the poorest segments of society, increasing their degree of financial literacy, giving them more interest in the broader national wellbeing, and potentially modifying attitudes towards business
it provides some protection against future tax rises which would otherwise be needed to fund future retirement incomes.

Exchange rate regime: The only real case for fixing the New Zealand dollar to the Australian dollar would be to deepen the integration of the two economies in the expectation that this would help income convergence when accompanied with free movement of capital and labour. Effectively New Zealand would become like Victoria without the protection of fiscal transfers (although this is actually a cost to Victoria in the Australian system of transfers, which New Zealand would avoid). The main cost would be a considerable loss of policy freedom – as Greece has discovered.

Yours sincerely

P.S. Trust all is going well for you in what is clearly a challenging international environment.