

## **Policies to Improve Productivity and Grow the Economy**

The major impediment to growth in New Zealand is our poor productivity performance. With the general election approaching, the New Zealand Chambers of Commerce (NZCCI) has just released its three-yearly Election Manifesto and we have decided to focus on the policies needed to correct this poor productivity performance. This document provides a pragmatic stance on business and economic policy issues for political parties to consider - both before and after the election – if we are to improve our productivity growth rate.

In general, the business community is not looking for special favours from government or for interventions from Government in the economy. What's it wants are sound, stable policies which provide a platform for economic growth, and an environment where barriers to business success are removed.

That said there are things Government can do to create a better business environment for productivity growth.

The Chambers suggests a policy programme built around investment in infrastructure; lower marginal tax rates; reductions in government imposed costs on business; strong external linkages and a flexible labour market.

Specific policy proposals include:

- leave the existing monetary policy framework alone
- a review of all government spending with a view to eliminating waste
- a reduction in the top personal tax rate be a priority as part of the next round of tax cuts and the implementation of a flatter tax structure
- increased infrastructure investment including the use of more private sector investment including public private partnerships (PPPs)
- establishment of a Productivity Commission
- remove restrictions on thermal electricity generation
- a review of the Resource Management Act

High on the wish list for many businesses are tax cuts. The tax cuts announced in the recent budget were most welcome, but more are needed if we are to retain our international competitiveness against countries like Australia.

Rather than a pre-election bidding war on how big each party's tax cuts would be, we would like to see parties present carefully considered tax packages that aim to boost the economy by improving the incentives to work, save and invest. Reductions in tax rates, rather than a lift in tax thresholds, are most important here because such incentives are increased with lower marginal tax rates.

We would like to see the top personal tax rate reduced so it is closer to the company rate. Around 40% of businesses are unincorporated - for example as sole traders or partnerships - meaning the company tax rate is not relevant to a large proportion of New Zealand enterprises.

Also on the subject of tax, the cost of complying with the tax system needs to be reduced. As well as IRD compliance costs, examples abound of other government-generated red tape that needs to be cut if small business is to flourish - Health and Safety, ACC and food labelling being just some.

A major area where government attention will be needed post-election is infrastructure development. Well-developed infrastructure is a prerequisite for a robust economy but insufficient investment over the last three decades has left weaknesses in several areas. This is impacting on growth and productivity in our economy and is being felt particularly hard by the business sector.

The current government has attempted to fill the gap in the area of land transport, which has been welcome, but ongoing investment is still required and this needs to be expanded.

Looking to the next three years it is investment in broadband infrastructure that needs to be a priority. If New Zealand is to fully participate in the knowledge economy, we need to ensure that more homes and businesses have fast, cost-effective internet access. This would be particularly invaluable to small business, many of which are home-based or located far from the city centre.

In the area of trade policy, the current government has made some major achievements in advancing our bilateral trade agreements, most noticeably with China but also the recently announced ASEAN-Australia agreement.

We believe a high quality multilateral trade agreement is preferable to a series of FTAs and so the government is right to keep pushing for a successful conclusion to the WTO Doha Round. In the meantime, it is in New Zealand's best interests to pursue bilateral FTAs with our key trade partners and we believe negotiations with India, Japan, Korea, Taiwan, US, and Europe should be the policy priorities over the next three years. There is a case for further resources being directed towards enabling New Zealand to increase international trade. The focus should be on expanding export capability and ensuring firms take full advantage of the market opportunities that exist.

Australia has a much better productivity record than New Zealand. One of the reasons for this better performance has been the existence in Australia of an independent Productivity Commission. The Chambers have been enormously impressed by the work of the Commission and are calling for a similar institution to be established in New Zealand as a priority.

In conclusion, businesses are looking for sound policies that will grow the economy. Here's hoping that as the election approaches, more light will be shed on what policy prescriptions parties are offering to achieve this goal.