

## Second draft of “Economy on the Edge: Swan Dive or Belly Flop?”

**4 November 2008** - The combined New Zealand Institute and NZX strategy, “Economy on the Edge: Swan Dive or Belly Flop?” has moved into its second phase with some robust analysis, some revisions and some new material based on substantial amounts of feedback, including postings to [blog.nzx.com](http://blog.nzx.com).

“People have given us direct and practical feedback on all our proposals both via the blog and directly. Some have gone into considerable detail and this is evidence of how strongly they feel about the necessity for a changed approach to policy and action,” said New Zealand Institute CEO David Skilling.

The original draft strategy defined the critical nature of the current global economic crisis and proposed ways by which New Zealand can emerge from the crisis on a much stronger, less vulnerable footing. Authors David Skilling, CEO of the New Zealand Institute and Mark Weldon, CEO of NZX asked for feedback on their proposals.

The new draft contains seven main points:

1. It defines the real need for a clear, New Zealand-wide strategy, and suggests criteria against which such a strategy should be evaluated.

“New Zealanders are telling us that reactive, ambulance type responses and an ongoing failure to focus on the productive economy is a serious concern. They want to see actions that preserve the health of our firms and farms, that create job opportunities for New Zealanders, and that take away our reliance on foreign debt to fund growth. In other words, we want a clear strategy - and currently we lack one,” said NZX CEO Mark Weldon.

2. The paper proposes urgent bridging measures to smooth the impact of the global economic crisis on firms and farms, which are the providers of jobs to New Zealanders. Key elements include:

- Eliminating the provisional tax uplift provision and addressing its punitive elements;
- Accelerated depreciation rates for new capital expenditure from 2009 to 2011, with a particular emphasis on technology investments;
- Expansion of tax deductibility for both holiday pay and capital raising activities;
- Eliminating the distortions, and negative incentives for being New Zealand-based, created by the current imputation credit regime;
- Aggressive easing of interest rates.

3. The draft outlines enhanced proposals to improve the short- and long-run productivity and performance of SOEs, to ensure that they are positioned to make a stronger contribution to growth and investment in New Zealand.

4. Many people identified the chronic lack of cohesion between public and private sectors as a factor that is both an economic cost and a risk to the successful execution of any proper policy.

“The only people who profit from this are consultants who act as go-betweens, interpreting each sector to the other. What it means is that policy initiatives that take account of real world opportunities and risks are absent, and the lobbying industry is burgeoning. It’s time for both sectors to find a level at which they can operate with mutual respect and agreed outcomes,” said Weldon.

5. A proposal is made to dramatically cut corporate tax rates and remove imputation credits to increase corporate competitiveness and to eliminate distortions.

6. In response to this lack of cohesion, the document proposes the establishment of an Economic Advisory Council, similar to those operating in other countries, which comprises local and international experts who provide advice and feedback to policy makers on key economic issues.

7. “Swan Dive or Belly Flop?” concludes with a call to action for the new government to deliver on a clear strategy in a timely, non jargonistic fashion.

“Overwhelmingly, the feedback is telling us that people want to see action, not just a series of slogans and sound bites. This is our view as well – there is an urgent need for bold, deliberate action that responds to the seriousness of the economic challenge facing New Zealand, and also strengthens the long-term competitive position of New Zealand,” said Skilling.

People can read and respond to the second phase of “Swan Dive or Belly Flop?” by visiting [www.blog.nzx.com](http://www.blog.nzx.com).

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