

Submission by



to the
NZ Treasury

on the
Establishment of an Independent Fiscal Institution

October 2018

ESTABLISHING AN INDEPENDENT FISCAL INSTITUTION SUBMISSION BY BUSINESSNZ¹

1.0 INTRODUCTION

- 1.1 BusinessNZ welcomes the opportunity to comment on the Treasury Discussion Paper – *Establishing an Independent Fiscal Institution (the "Discussion Paper")*.
- 1.2 BusinessNZ notes the Discussion Paper proposes the establishment of an Independent Fiscal Institution in NZ. The purpose of an Independent Fiscal Institution is to help strengthen accountability, transparency and debate over fiscal policy, as well as to provide better support to political parties in developing effective public policy.
- 1.3 Over the last 2-3 decades, New Zealand has been upheld around the world for its development of world class fiscal and monetary policy settings. These include the Reserve Bank Act's independent monetary policy and the country's fiscal policy, as espoused by the Fiscal Responsibility Act (now superseded by the Public Finance Act). Successive governments have, over the years, largely endorsed both these essential pillars of NZ's economic policy, with only minor tweaks here and there.
- 1.3 BusinessNZ is strongly supportive of the concept of an Independent Fiscal Institution and notes that a number of countries already have such institutions.
- 1.4 While BusinessNZ is strongly supportive of the concept, there are a number of issues we would like to bring to the Treasury's attention as it considers how the implementation process might proceed.
- 1.5 BusinessNZ would be pleased to meet with Treasury officials to discuss our submission further if it was thought this would add value to that process.

RECOMMENDATIONS

BusinessNZ **recommends** that:

The Government proceeds with the establishment of an Independent Fiscal Institution, but notes the comments made in this submission on the breadth and scope of such an institution.

¹ Background information on BusinessNZ is attached as Appendix 1.

2.0 DISCUSSION

- 2.1 BusinessNZ considers there is a strong case for establishing an Independent Financial Institution.
- 2.2 Currently Parliament, and indeed the broader public, is often not well-informed about the quality and quantity of public expenditure.
- 2.3 The Discussion Document (p.5) lists the government's proposed five key functions as being to:
1. Provide financial costings of political party policies, including election manifestos, and any costings requested when a government is formed;
 2. Comment on and assess compliance with the government's fiscal strategy and targets;
 3. Comment on the Treasury's economic and fiscal forecasts;
 4. Comment on long-term sustainability and fiscal risks; and
 5. Produce relevant and related research and commentary on fiscal and budgetary issues.

Costings of political party policies

- 2.4 Arguably the fiscal debate during the 2017 General Election campaign underlined the need for an informed and independent body to comment on the cost of political party promises, particularly during an election campaign, where such promises have significant fiscal implications. At the last election, many policy proposals over a range of political parties were hotly disputed and to have an independent assessment would, hopefully, improve the quality of the debate.
- 2.5 An Independent Fiscal Institution might not be able to do a full costing on pre-election policies but might have the ability to scrutinise proposed policies for potential risks (upside and downside). This could result in greater public understanding when individuals cast their vote for a particular party or candidate.
- 2.6 But there is a key issue concerning the resourcing of such a body given the potential for significant policy proposals to come across the bows of an Independent Fiscal Institution at short notice.
- 2.7 Issues of independence, expertise and resourcing arise in respect to the Independent Fiscal Institution's role. While it is likely the expertise of existing agencies such as the Treasury and Inland Revenue (and potentially other relevant spending departments), will also be required, having the Independent Fiscal Institution embedded within, say, the NZ Productivity Commission could have merit.

- 2.8 It is understood the Productivity Commission seconds individuals for specific case studies based on their expertise in relation to particular projects.
- 2.9 Obviously the Independent Fiscal Institution's staff numbers would need to be boosted during the general election phase and potentially afterwards as policy proposals are broadly firmed up. Having the Independent Fiscal Institution headed by an academic economist, or perhaps former senior Treasury economist, would give the institution some credibility with the public.
- 2.10 The proposal to cost political parties' policies appears particularly broad and to have two potentially adverse effects. First, it might crowd out the incentive for political parties to use a number of private sector institutions and economic agencies to cost policies (as many already do). Second, and perhaps even more importantly, if they no longer see a need to use such agencies, political parties might impose massive costs on an Independent Fiscal Institution by simply "flying kites" without necessarily doing the preliminary policy development work. Even without flying kites, where are the lines likely to be drawn around policy announcements?
- 2.11 Maybe some sort of fiscal cap might be an option providing political parties with limited access to the expertise of an Independent Fiscal Institution, rather than simply giving them an open cheque-book. This could impose some discipline on political parties as to what policies they particularly want to have assessed rather than encouraging the assessment of a broad wish-list of proposals.
- 2.12 The pros and cons of the above, including whether there should be limits on use based on party size etc. would obviously need to be thought through. Some sort of cost-sharing between political parties and the Independent Fiscal Institution might be an alternative option.

Assess compliance with the government's fiscal strategy and targets;

- 2.13 This would seem to be a worthy objective.

Comment on Treasury's economic and fiscal forecasts;

- 2.14 This may appear to be useful although many other private sector institutions regularly comment on the merit of the government's economic and fiscal forecasts so the market for comment is probably already reasonably crowded. Secondly, it would seem a little over the top for the public sector to be checking on the public sector as it were.

Comment on long-term sustainability and fiscal risks

- 2.15 This could be a useful addition to the work of the Independent Fiscal Institution when looking at potential fiscal pressures resulting from a generally ageing population, e.g. health care costs along with the sustainability of current NZ Superannuation. However, to some extent the Treasury already provides this kind of advice through very long-term forecasts, in some cases looking out decades.

Produce relevant research and commentary on fiscal and budgetary issues.

- 2.16 This would appear to provide the Independent Fiscal Institution with a very broad and open-ended operational framework. The question must be asked: why is such a broad and open-ended framework proposed? Tasks to be undertaken should be more clearly defined.
- 2.17 In conclusion, BusinessNZ is very supportive of the concept of an Independent Fiscal Institution, subject to clarifying its role in line with this submission.

Appendix One - Background information on BusinessNZ



[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).