

17 July 2007

Finance and Expenditure Select Committee  
Parliament Buildings  
WELLINGTON

Dear Sir/Madam

**SUBMISSION BY BUSINESS NZ ON THE INQUIRY INTO THE FUTURE  
MONETARY FRAMEWORK**

Please find attached two copies of Business NZ's submission on the above inquiry: *"OCR – The Sharpest Tool in the Box? – Giving interest rates some help to control inflation"*.

This is our most recent publication, exploring possible support mechanisms to help the OCR control inflationary pressures, and we would like it to be treated as Business NZ's submission to the inquiry.

Further copies can be downloaded from [www.businessnz.org.nz](http://www.businessnz.org.nz) under 'commentaries'.

Business NZ notes the terms of reference for the inquiry include a broad range of issues: the causes of inflationary pressures, the effectiveness of current monetary policy in controlling inflation and the interaction of monetary policy with other elements of the economic policy framework including fiscal policy. We endorse the broad approach taken in the terms of reference.

The enclosed publication/submission examines a range of options, including some of those proposed in the *'Supplementary Stabilisation Instruments'* report to the Reserve Bank (February 2006) and the more recent report to the Reserve Bank and Treasury: *'Mortgage Interest Levy, a Detailed Option'*.

Our analysis suggests there are a range of options to reduce the pressure on interest rates (and therefore exchange rate pressures on exporters) as the sole tool for influencing monetary policy. However, most entail significant risk and certainly there are no silver bullets.

Effective policy solutions must ensure competitive markets (i.e. by removing monopoly status from the provision of goods and services); reduction in the regulatory burden which places unnecessary costs on businesses and individuals; and tight control of government expenditure targeted at clear cases of market failure.

Issues surrounding land availability and housing supply clearly warrant further investigation.

Crucially, any moves to muddy the waters over who is responsible for monetary policy could reduce confidence in New Zealand's political and financial institutions. In this respect, any supplementary tools to support monetary policy should ensure the Reserve Bank retains control to maintain its international credibility.

The following options are recommended as optimal for consideration:

- Improve responsiveness of housing supply
- Improve the quality of regulation
- Restrain central and local government expenditure
- Improve the quality of government expenditure
- Increase competition in markets
- Improve productivity
- Adjust interest rates more decisively.

More detail on these recommendations is provided in the attached report.

Business NZ requests the opportunity to be heard by the Select Committee in due course.

Please contact John Pask DDI 496 6563 or email: [jpask@businessnz.org.nz](mailto:jpask@businessnz.org.nz).

Yours sincerely,

John Pask  
**Economist**