

## **Submission to the Finance and Expenditure Select Committee on the Inquiry into the Future Monetary Policy Framework**

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 45 Nationally Organised Societies and National Members. NCWNZ has 31 branches to which women from more than 120 societies are affiliated. The Council's function is to serve women, families and the community through research, study, consultation and action.

### **Pre-amble**

NCWNZ is pleased to participate in this inquiry as the impact of current monetary policy on the lives of ordinary families is an on-going concern. Indeed in 1991 NCWNZ asked:

*"...the appropriate Minister(s) to ensure the establishment of efficient monitoring processes for the critical effects of government policies on middle and lower income families."* (Resolution 2.10.5)

Consultation of women throughout New Zealand in 2006, in preparation for the Non Governmental Organisations' Report to the United Nations Convention on the Elimination of all Forms of Discrimination against Women (CEDAW), revealed that current policies do not serve all families well; that poverty is still rife amidst plenty; that the gap between the 'haves and the have-nots' is not diminishing.

Members seek policy planning that will ensure that all citizens may enjoy the fruits of this wonderful country and would encourage the members of the Finance and Expenditure Committee to not limit themselves to variations of solutions already tried but to explore other models.

### **Introduction**

NCWNZ accepts that the Terms of Reference of necessity, while wide ranging in their scope, are inter-linked in their effect as a decision in one area impacts on any decisions likely in another. Therefore this submission is in essay form rather than working systematically through the bullet points. Members hope this is acceptable to the committee.

### **General Comments**

When Sir Brian Elwood was Chief Ombudsman, he made the observation that "The solution is not well understood unless the problem is understood".

NCWNZ, through its CEDAW consultation process, has observed that many women, while aware that current monetary policy often fails to operate in their best interests, are unaware of what actually transpires between 1 and 2 The Terrace, Wellington – the address of Treasury and Reserve bank respectively.

Back in 1986 A.J. Tweedie of the Reserve Bank of NZ's Monetary Policy Section wrote: "The objectives ultimately of monetary policy are the maximisation of non-inflationary growth." But since

then, economic growth and the way it is measured, has come in for criticism by those who object to social and environmental negatives being included in the Gross Domestic Product (GDP). Added to this is the way all borrowing incurs compound interest, making the term “ non-inflationary growth” an oxymoron as the price of money feeds cost –push inflation.

A major anomaly surrounding government borrowing of concern to NCWNZ is the inclusion of the sustainability requirement in so much government legislation while expenditure on Crown debt-servicing, including that for SOEs, hovers around \$3 billion per annum – more than twice the Budget Allocation to Defence.

Now that the Official Cash Rate has been raised, members are not surprised that Japanese money managers are racing to their brokers to improve their credit-ratings by up-taking as much as possible of New Zealand’s apparently risk-free and low-risk public debt securities. Over \$35 billion of Crown debt is projected to be on offer next year. NCWNZ is sceptical of any claims that its servicing is sustainable in the long term.

The question has been raised as to whether the Government need borrow at all from the private sector – not only borrow for current expenditure on public health, education, etc but to roll over past debts as they mature.

New Zealander, Peter Nichol, was seconded to the Bosnian Central Bank after the bitter strife of the 1990s. Perhaps anticipating the words of Alan Greenspan, then head of the American Federal Reserve, he stated unequivocally that “a central bank can issue currency secured by the revenues of the State”. Indeed this happens now with the issue of New Zealand’s legal tender – but this comprises less than 4% of the total money supply – the remainder is largely generated by the private financial sector bidding for government bonds and other securities

If sovereign governments have the power to determine monetary policy maybe it is time for politicians and economists to stop perpetuating the myth that New Zealand is entirely at the mercy of external influences. “...why are we such patsies in the matter of economic sovereignty” asks Professor Tim Hazeldine of Auckland University. Citing New Zealand’s ban on nuclear-powered ships visiting our shores, he puts the further question “Instead of pathetically lying down in front of the Washington consensus and its local agents such as the New Zealand Business Round table, why could we not show the nerve and resolution in economic affairs that we showed over the nuclear warships?” and urges us to “take charge of our economic destiny too.”“We may” he adds “find we are in the vanguard of history, not struggling against it”.

As members of an organisation which has experienced what it is like to be “in the vanguard of history” by successfully introducing women’s suffrage into world politics, members feel it is time to voice their support for public debate on policies which could be economically liberating by promoting monetary justice.

Members read of women being helped in developing countries through access to low-interest micro-credits. But, if “monetary policy is one of the main instruments of macro-economic policy” (Chapter 12, Financial Policy Reform, Reserve Bank of New Zealand RBNZ), New Zealand may need to look at nil or low interest macro-credits to fund essential infrastructures.

NCWNZ is encouraged by amendments to the Public Finance Act which allow the Minister of Finance (or his agents) to “borrow from any person or organisation within or outside New Zealand,” and find no legal obstacles to credit-lines being arranged with the RBNZ for local government and state departments, provided of course that strict repayment schedules are drawn up and carefully

audited. The implementation of such a policy should satisfy people like Basil Morrison, President of Local Government NZ, who has called for "more tools in the toolbox" in order to keep rate rises in check.

There are very strong moral arguments for pursuing policies of monetary justice.

- Firstly, tax- and rate-payers should not be responsible for the viability and credit-ratings of private financial institutions and pension funds - the real dependents on our public revenues.
- Secondly, one of the greatest gifts that could and should be given to future generations is to relieve them of the burden of compound interest on public debt.
- Thirdly it could be seen as hypocritical of government to preach sustainability while employing seemingly unsustainable funding mechanisms.
- Fourthly, by offering fewer public debt securities on the open market (because of directing the RBNZ to establish credit-lines for government departments and local bodies), bidders would have to agree to lower yields and less generous discounts if they wish to include nil-risk public debt in their portfolios. The consequent reduction in interest rates should help to lower the world price of interest with immeasurable benefits to the poorer nations.

There is a further advantage to an economy when the scope of money speculators is restricted. Jim Anderton M.P. once described how "95% of money movement around the world is speculative .It has nothing to do with transactions relating to goods and services" he wrote, accusing the speculators of doing nothing productive for the economy.

A former economic adviser to the United States Presidency, James Tobin (developer of the "Tobin Tax") used to advocate policies which could act as "automatic stabilisers" to prevent extremes of movement in currency trading.

A combination of monetary tools such as suggested above, and fiscal measures (say a one cent in the dollar turnover tax on the NZX and NZDX markets) are well worth considering, to achieve the price stability as required in the Policy Targets Agreement co-signed by the Governor of the Reserve Bank and the Minister of Finance. NCWNZ notes that manipulation of the OCR is not specified in this Agreement.

What of monetary tools which have been discarded?

NCWNZ refers here to the use of the Monetary Conditions Index (MCI) once favoured by the RBNZ. Is it time to revisit the MCI with today's explosion of debt resulting from the use of bank-credit cards, let alone the readiness of banks to offer sometimes 100% mortgages in the wake of indications that the risk-weighting for mortgages has been lowered by the Basel II guidelines? Comment has been made that in any public debate on rising property prices, private banking economists avoid mention of Basel II. There seems to be a reluctance to challenge these guidelines in Dr Bollard's communication with the Minister of Finance re Supplementary Stabilisations Instruments. The conclusion in the RBNZ press release (7 June 2007) that "there are no simple or readily implemented options that would provide large payoffs in the near term, without significant complications and costs...." has been cause for alarm and seen as an excuse for inaction. NCWNZ suggests that there are options as outlined earlier which could provide small payoffs in the meantime.

Final comments must be on the recent trans-Tasman exchanges on monetary policy.

In August 2006 NCWNZ made a submission to the Finance and Expenditure Select Committee on the Reserve Bank Amendment Bill, concerned as we were and are about the potential for further diminution of New Zealand's economic sovereignty. The submission stated that the Bill as currently worded did not give confidence to members that reciprocal legislation would actually happen: i.e. that Australia's legislators through its Authorities would not make decisions that could have a detrimental effect on the financial stability of New Zealand. It then asked by whom and how the effects would be measured. NCWNZ would hope that future planning would offer some reassurances in that regard.

### **Conclusion**

The 2007 NGO CEDAW Alternate Report under Article 13 – on Economic and Social Life – cites the lack of comprehensive statistics disaggregated by gender as 'still hindering moves to eliminate discrimination against women in many areas of social and economic life. NGOs recommend that steps be taken to remedy this, together with more robust gender analysis of all government policies and spending.'

NCWNZ extends congratulations for undertaking this inquiry. While it is recognised that this is an over-arching policy discussion, members ask that multi-scenario realistic modelling be initiated, to avoid negative effects on families and further to actually improve the plight of middle and low income families in particular.

NCWNZ is very pleased to be involved in this most important deliberation on a topic which affects each New Zealander and asks that the Committee take each of the issues raised into serious consideration when setting out policies for the future.

Christine Low  
**National President**

Heather M Smith  
**Economics Standing Committee Convener**

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