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INFO ROUTINE HM TREASURY, BANK OF ENGLAND

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NEW ZEALAND ECONOMY

SUMMARY

1. MR LANGE OUTLINES GOVERNMENT PLANS TO INTRODUCE A PACKAGE OF FINANCIAL MEASURES, INCLUDING CUTS IN PERSONAL AND CORPORATE TAXATION AND A REFORM OF THE BENEFITS SYSTEM. DOES NOT RULE OUT FURTHER SALES OF GOVERNMENT ASSETS. LUKEWARM RESPONSE FROM THE MEDIA AND THE MARKET.

BACKGROUND

2. THE PRIME MINISTER, MR LANGE, ANNOUNCED AT A PRESS CONFERENCE ON 27 NOVEMBER THAT THE GOVERNMENT WOULD BRING FORWARD, WITHIN THE NEXT THREE MONTHS, A PACKAGE OF FINANCIAL MEASURES.

3. MR LANGE ANNOUNCED THAT THE PACKAGE WOULD INCLUDE CUTS IN PERSONAL AND CORPORATE TAXATION (WHICH PROBABLY COULD NOT TAKE EFFECT UNTIL OCTOBER 1988), MEASURES TO TIGHTEN UP ON TAX AVOIDANCE, AND THE INTRODUCTION OF A SYSTEM OF DIVIDEND IMPUTATION. HE HOPED THAT IT WOULD BE POSSIBLE TO AVOID AN INCREASE IN GST, SINCE THIS WOULD RAISE INFLATIONARY EXPECTATIONS.

4. MR LANGE HINTED AT SUBSTANTIAL CHANGES IN THE GOVERNMENT'S INCOME SUPPORT POLICY, SAYING THAT THE GOVERNMENT WOULD GIVE PEOPLE THE CHANCE TO BREAK THEIR DEPENDENCY ON THE STATE. BUT THERE WAS NO SUPPORT FOR THINKING WHICH FAVOURED ONLY A MINIMAL ROLE FOR THE GOVERNMENT IN THIS FIELD. HE PLEDGED THAT NONE OF THE CHANGES TO BENEFITS OR INCOME MAINTENANCE WHICH THE PACKAGE MIGHT INCLUDE WOULD PREEMPT THE RECOMMENDATIONS OF THE ROYAL COMMISSION ON SOCIAL POLICY, WHOSE REPORT IS DUE IN SEPTEMBER 1988. HE MADE NO SPECIFIC MENTION OF A WIDELY PREDICTED SYSTEM OF NEGATIVE INCOME TAX, WHEREBY INDIVIDUALS OR FAMILIES WITH INCOMES BELOW A SET LEVEL WOULD RECEIVE 'TOPPING-UP' FROM THE INLAND REVENUE.

5. MR LANGE DID NOT RULE OUT FURTHER SALES OF GOVERNMENT

ASSETS. IT WAS IMPORTANT TO MAINTAIN A BALANCE ''BETWEEN THE NEED TO CUT DOWN THE DEBT, TO GET THE BEST OUT OF THE SYSTEM AND TO SEE THE WORTH TO THE TAX-PAYER AND TO THE ECONOMY OF THE STATE'S RETAINING OWNERSHIP OF CERTAIN COMMERCIAL UNDERTAKINGS''.

6. HE SAID THAT THE MEASURES WERE DESIGNED TO ''GIVE CONFIDENCE TO THE BUSINESS COMMUNITY'' AND TO ''HELP PEOPLE TO PLAN 1988 WITH SOME DEGREE OF CONFIDENCE''. LEAVING THE PROPOSED MEASURES UNTIL THE BUDGET (DUE IN MID-YEAR) WOULD BE TOO LATE TO EFFECT THE ECONOMIC MOMENTUM OF 1988. HE REACTED STRONGLY TO PRESS TALK OF A MINI BUDGET, WHICH HE DESCRIBED AS THE SORT OF ''SERIES OF STOP-GO LURCHES AND DECLINES'' THAT CHARACTERISED THE MULDOON ERA. THE PACKAGE WAS DESIGNED TO BE CONSISTENT WITH AND TO REINFORCE THE ECONOMIC APPROACH WHICH THE GOVERNMENT HAS ADOPTED SINCE 1984.

COMMENT

7. MR LANGE'S PRESS CONFERENCE WAS PRESUMABLY DESIGNED TO PUT AN END TO RECENT MEDIA SPECULATION, ITSELF FUELLED BY LEAKS FROM THE OFFICE OF THE MINISTER OF FINANCE, THAT THE GOVERNMENT INTENDED TO BRING IN A MINI BUDGET SHORTLY (TORLOT'S LETTER OF 25 NOVEMBER TO PLUMB, SPD, REFERS). BUT MR LANGE'S INABILITY OR RELUCTANCE TO BE MORE SPECIFIC ABOUT THE GOVERNMENT'S PLANS HAS DONE NOTHING TO DAMPEN DOWN SPECULATION. THE SHARE MARKET, PRESUMABLY HAVING DISCOUNTED THE EARLIER RUMOURS, HAS SO FAR SHOWN NO DISCERNIBLE REACTION TO MR LANGE'S ANNOUNCEMENT.

8. SOME COMMENTATORS HAVE LINKED THE IMPENDING NEW MEASURES TO LAST MONTH'S STOCK MARKET COLLAPSE. WHAT EVIDENCE THERE IS TENDS TO SUPPORT MR LANGE'S CONTENTION THAT HIS FINANCE MINISTER HAS IN FACT BEEN WORKING ON THE PACKAGE SINCE SEPTEMBER. MY OWN VIEW IS THAT MR DOUGLAS IS ANXIOUS TO MAINTAIN THE MOMENTUM OF THE GOVERNMENT'S FREE MARKET POLICIES, HAVING HAD OF NECESSITY TO TREAD WATER IN AN ELECTION YEAR. MANY OF THE MEASURES HINTED AT BY MR LANGE YESTERDAY HAVE BEEN COMMONPLACE IN THE THINKING OF TREASURY OFFICIALS FOR SOME TIME. HOWEVER, THE STOCK MARKET COLLAPSE MAY RESULT IN SOME CHANGE IN PRESENTATION OF THE NEW MEASURES. IF THE STOCK MARKET COLLAPSE HAD NOT OCCURRED, IT SEEMS LIKELY THAT THE NEW MEASURES WOULD HAVE BEEN PRESENTED AS A FURTHER ROUND IN THE GOVERNMENT'S BATTLE AGAINST INFLATION, STILL THE DECLARED PRIORITY. IN PRESENT CIRCUMSTANCES, HOWEVER, IT SEEMS LIKELY

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THAT THE PACKAGE, THE BASIC ELEMENTS OF WHICH WILL REMAIN UNCHANGED, WILL BE DESIGNED TO RESTORE INVESTORS' CONFIDENCE IN THE NEW ZEALAND ECONOMY.

9. WHATEVER THE WRAPPINGS ON THE PACKAGE, THE CONTENTS, NOTABLY THE INCOME SUPPORT MEASURES, WILL BE SCRUTINISED CAREFULLY BY THE LABOUR PARTY'S PARLIAMENTARY CAUCUS, WHO HAVE ALREADY SHOWN SOME SIGNS OF RESTIVENESS ABOUT BEING EXCLUDED FROM CONSULTATION ON THE NEW MEASURES. BUT ON PAST FORM, MR DOUGLAS IS UNLIKELY TO BE DETERRED BY DISSSENT FROM WITHIN HIS OWN RANKS.

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