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RETURN TO OREWA

**An address to the Orewa branch of the New Zealand National Party
by Don Brash
27 November 2010**

Fellow members of the National Party,

I greatly appreciate your invitation to speak this evening.

Apart from speeches to mark the retirement of Judy Kirk as President of the Party at the Northern and national conferences of the Party last year, this is the first National Party meeting I've addressed since I resigned as Party Leader, four years ago this month. And it seems entirely appropriate that I should be doing so in Orewa: I gave many hundreds of speeches during my four and a half years in Parliament, but the ones of greatest significance were the four I gave here in Orewa.

So this is my fifth Orewa speech, and given that we have just passed the second anniversary of National's election victory in 2008, with just a year to go till the next election, it is perhaps a good time to review the progress we've made.

There is much to be pleased about.

The New Zealand economy is out of recession and is growing.

At 6.4% of the workforce, unemployment is lower than in most other developed countries.

Personal income tax rates have been cut significantly.

The Government has moved to allow employers and employees to agree a 90 day probationary period in employment contracts, bringing us broadly into line with all other developed countries.

Steps have been taken to streamline the process of approving building consents for multiple dwellings.

A start has been made on reforming the Resource Management Act.

The Government has ended the moratorium which has prevented the establishment of new aquaculture areas for the last decade.

And to cap it all off, the Government, and the Prime Minister personally, stand high in the polls!

But I confess to being deeply worried.

Some of my worries are quite specific.

I worry that, despite knowing that the Labour Government's abolition of the youth minimum wage has very substantially increased youth unemployment – by 12,000

according to Canterbury University economics professor Eric Crampton – we have taken no action (indeed, we voted against Roger Douglas’s Bill to reinstate the youth minimum wage), so that thousands and thousands of young people leave school or training and quickly become demoralized, deprived of the opportunity to support themselves, with all the social and personal harm that that does.

I worry that, despite knowing that New Zealanders face house prices which are higher, relative to our incomes, than in most other countries, and despite our being one of the least densely populated countries in the world, we have allowed that situation to continue because we’ve not been willing to put a stop to zoning laws which drive up the cost of urban land to ridiculous levels. (I’ve been told that the price of industrial land in Auckland is several times that of comparable land in large US cities.)

I worry that, despite telling New Zealanders before the election that we should be fast followers and not leaders in the race to reduce carbon emissions, we have introduced an all-sectors Emissions Trading Scheme in a situation where none of our three largest trading partners – Australia, China, and the United States – has yet done so, nor in two of those cases seems likely to do so.

I worry that, despite being a party which believes in allowing people the maximum freedom to make choices for themselves, we have to date done nothing to allow more freedom for parents to choose the school their children attend.

Those are some of my specific worries. But I have two more pervasive worries.

The first relates to the economy.

A few days before the 2008 election, John Key gave an excellent speech in which he stressed his commitment to doing something serious about reversing New Zealand’s economic decline relative to Australia, and the resulting exodus of hundreds of thousands of our children and grandchildren.

In the immediate aftermath of the 2008 election, we reached a confidence and supply agreement with the ACT Party. One of the key components of that arrangement was that the Government would aim to lift New Zealand’s living standards to the Australian level by 2025.

Well promises are easy. Helen Clark promised to lift New Zealand back into the top half of the OECD within 10 years, but of course didn’t manage to lift New Zealand by a single rung on the OECD ladder in her nine years in office. She was careful to avoid being held to account for her commitment and as time went on even tried to pretend she’d never actually made that promise.

Not National. To John Key’s considerable credit, the arrangement with the ACT Party not only envisaged the creation of an advisory group to suggest the best ways to achieve

that catching-Australia goal, but also requires that advisory group to report annually on progress towards the goal. And as many of you will know, I have the privilege of chairing that group.

Earlier this month, the 2025 Taskforce, as the advisory group is called, published its second report. Last year, we estimated that on average Australian incomes were at least 35% above those in New Zealand. And no serious observer believes that the gap has narrowed over the last 12 months.

The important question, of course, is not whether the gap narrowed over the last year but whether policies are being put in place which will bring about a narrowing of the gap over the medium term.

And make no mistake, closing the gap is a big challenge: to close the gap within 15 years, New Zealand incomes will need to grow by about 2% faster than Australian incomes, on average, for that entire period. On realistic assumptions about Australian growth, this implies that New Zealand incomes will need to grow at about 4% per annum for the same period.

Can it be done? Pessimists argue that it's impossible, not least because of all those minerals Australia has. Well yes, Australian minerals are undoubtedly behind a huge increase in the value of Australian exports over the last few years but that's absolutely no reason to believe, as some do, that that condemns New Zealanders to be poorer than Australians forever. New Zealand itself is incredibly well endowed in natural resources, including many minerals, though following the tragic loss of life at Pike River this week it feels uncomfortable talking about them. Plenty of countries much wealthier than New Zealand, some wealthier than Australia, have no minerals at all.

Catching Australia is possible – after all, for much of our history, standards of living in the two countries have been very similar. But we will certainly not catch Australia on our current policy track, and nobody that I've spoken to thinks that we will.

I'm sometimes asked what's the single most important thing Government must do if we're to give catching Australia our best shot, and I sometimes attempt an answer. But the reality is that we will never catch Australia in 15 years – or in 50 years – unless Government is willing to look at every policy – new and existing – through a growth lens. Does it help the boat go faster or does it not?

Don't get me wrong. Governments don't create wealth: people and firms operating in vigorously competitive markets do. But government policy choices affect the environment all of us face, and therefore the ability of this country and its people to reach their potential. We need to get those choices right, and that sometimes involves asking hard questions and making difficult calls. But we owe it to ourselves, to our children and to our grandchildren to do so.

New Zealand's relative economic decline over the last half century is one of the steepest on record anywhere. Reversing that decline won't be easy.

But our Party fought for the right to govern and to lead, not simply to hold office. We need to govern in a way which builds prosperity, and recognises the magnitude of the problems we face as a country. If we don't, we undermine our moral claim to govern. If we don't, others will seek to fill the void – and none of us believes that the Left has what it takes to reverse New Zealand's decline.

To use a phrase sometimes used in another context, we can't settle for the soft bigotry of low expectations that says "ah yes, but New Zealand is a nice place to live". Of course it is. But we need to transform our economic destiny too, and give our people a reason to believe that we can once again offer a standard of living similar to that in other developed countries – as we had only 50 years ago. In 1975, Rob Muldoon campaigned on "restoring New Zealand's shattered economy". Sadly, he didn't. But this generation of political leaders needs to pick up that challenge and do so.

Part of that of course is about getting back to basics. The National Party was built on some fundamental truths: vigorous competitive markets where people are largely free to make their own choices generate wealth; societies flourish best where civil society – family, voluntary groups – is free to flourish, not just as agents of the state but as the bedrock of the community.

Having given a sense of the big picture, let me be a bit more specific.

There are six broad policy areas where major change is needed if we're to get faster and more sustainable growth.

First, it is absolutely imperative that Government gets its fiscal deficit under control quickly. Bill English knows this of course, and has started the process by putting a much tighter limit in place for new government spending. He's also doing his best to condition opinion by warning that restraint on government spending will be needed for years ahead.

But it's important to state that this process has barely begun. Government spending as a share of GDP is the same this year as it was when National took office two years ago. Because the Government was not willing to reverse some of the seriously dopey policies introduced by the Labour Government during its final term in office – think interest-free student loans and universal child-care subsidies (policies which, incidentally, Bill English sometimes rather unkindly blames on me because of how close the 2005 election was!) – we're now running a primary fiscal deficit larger than at any time in the last four decades.

And most of that deficit is "structural", and will not disappear when the economy resumes its normal growth rate. Getting that deficit down will take tough, and potentially unpopular, decisions: unfortunately, it can't be done simply by driving a bit of inefficiency out of the Wellington bureaucracy. So far, the Government has stated its

intention to reduce the deficit, but has not announced any measures that will actually enable it to do so.

Getting government spending under control is absolutely crucial because it would not only begin the process of scaling back the size of the public sector in New Zealand (which is very much larger than the public sector in Australia) – vital if we're going to grow faster – but it would also enable monetary policy to be eased.

Interest rates in New Zealand are now much lower than they have been for most of our modern history, but they're higher than in most other developed countries, and this has the highly undesirable effect of keeping our exchange rate at a level which is holding back the rebalancing of the economy which we so urgently need.

New Zealand now has a higher level of overseas indebtedness relative to the size of our economy than almost any other country in the developed world, but we continue to add to that indebtedness as year after year – indeed, every year since 1973 – we spend more on imports of goods and services than we earn from exports. If the Government were to get its own spending under control, there would clearly be scope to cut interest rates – indeed, there would be a need to cut interest rates – and that would almost certainly produce some of the fall in the exchange rate which we so clearly need.

Second, we urgently need to get the tax on business income down. The Government's 2010 Budget announced a reduction in the corporate tax rate from 30% to 28% and that was a cause for modest celebration. But that reduction was offset by changes in depreciation and some other arrangements, so that the overall impact of the Budget is that the *effective* tax on companies was increased by about 1%, not reduced by 2%.

If we are to make New Zealand an attractive place for local and overseas companies to invest, we need to be looking at a *radically* reduced tax on business activity, not one which is still higher than the average tax on corporate profits in OECD countries.

It is well established that you get less of the things you tax – and that some things are more responsive to taxes than others. The evidence is overwhelming that business investment is more heavily influenced by tax than most other forms of economic activity. A flourishing New Zealand is likely to need a lot more entrepreneurial activity and enterprise, so let's not tax it anywhere nearly as heavily as we do now: we'd all be a lot better off.

Third, we need to explain to the public why governments do not make good long-term owners of businesses, and why we will therefore be selling at least those which operate in competitive markets. "Privatisation" has become a dirty word in New Zealand, thanks to Helen Clark's propaganda – and how she managed to preach that propaganda with a straight face, despite being a minister in the Labour Government of the eighties, and the Deputy Prime Minister when Telecom was sold, is beyond me. But the New Zealand paranoia about privatisation is entirely unhelpful if we're to increase our growth rate.

As the 2025 Taskforce argued in its recent report, the argument for privatisation is different today than it was in the eighties. No longer are government trading operations grossly inefficient; nor is our government debt yet at dangerous levels. Rather, the argument for privatisation today is that, by selling SOEs into the private sector, we empower them to respond to the challenges and opportunities of the future in a way which is impossible while they remain in state ownership. Nokia is today one of the world's foremost producers of mobile phones, but it began life as a company producing lumber and electricity. If it had been in government ownership, it would still be producing lumber and electricity.

As a Party, we need to be at the forefront of challenging why the state should be:

- The biggest owner of dairy farms in New Zealand;
- The biggest fund managers in New Zealand;
- The 50% owner of a large chain of petrol stations;
- By far the biggest owner of rental properties;
- The dominant generator of electricity;
- The dominant owner of our trains and planes;
- The owner of our most aggressively growing bank.

And the list goes on. Nothing in history or experience suggests that ministers and officials and their appointees have the incentives to get the decisions right in managing those assets to their best potential.

Fourth, we need to ensure that the investments which central and local government make are well justified by hard and transparent analysis of costs and benefits. The assets owned by central and local government are now some six times the value of all the shares on the New Zealand stock exchange, so getting government investment right is crucially important for our future. We know that historically governments have had a poor record of making investments, and the New Zealand government has been no exception – remember the enormous sums squandered on the “Think Big” projects of the Muldoon era, or more recently the grossly excessive price paid by Helen Clark’s Government to buy KiwiRail. We should be absolutely insisting that *all* government investments of any size – be they in rail, roads or broadband – be required to demonstrate publically that their benefits well exceed their costs. I have no doubt at all that some of the investments which are now widely touted would fail to stack up.

Fifth, we need to reduce the huge burden of regulation which still encumbers the business sector – and indeed, encumbers us all as individuals. Why should it take months and months to get a simple building consent to build a modest home in a residential area? Why should it take two years to gain approval to set up a 30-child childcare centre? Why did a property developer not too far from here tell me earlier this year that he had to get nine consents for a development he did in the nineties, 13 for a development he did last decade, and 30 for one he is doing now – all of them involving essentially similar environmental issues? The RMA and the way in which local councils interpret it have a lot to answer for.

People need to be much freer to use their own property as they see fit. Yes, there are public interest issues – pollution, effects on neighbours, and so on – but they don't include some council's judgement about "sustainability", or fit with a bureaucratically imposed "spatial plan".

The 2025 Taskforce reached the view last year that getting our regulatory framework up to world's best practice would enable us to close at least one-third of the income gap between us and Australia. This year, we urged the Government to give serious consideration to the enactment of a Regulatory Responsibility Bill, as recommended by a taskforce chaired by Graham Scott, former secretary of The Treasury.

And sixth, we must explain to the public why foreign direct investment in New Zealand is *almost always* beneficial to New Zealand. A few years ago, New Zealand was regarded as having one of the most welcoming regimes in the world when it came to foreign direct investment. That's no longer the case: indeed, according to the OECD, only China, Iceland, Russia, Indonesia and Mexico now have *less* welcoming regimes. The Labour Government began withdrawing the welcome mat, and I regret to say that we've continued that trend, creating a great deal of uncertainty about whether we want foreign investment or not. Frankly, if we want to catch Australia, that attitude needs to change.

So that's one of my two general concerns: we have not done nearly enough to rectify the serious economic problems left by previous administrations, or to have any prospect of catching Australia. On current trends, the gap looks likely to continue widening, with the result that hundreds of thousands more New Zealanders will move abroad in the years ahead.

Tragically, we show little sign of being serious about closing the gap, and if so that is a betrayal of our people and our country. We owe it to them and to ourselves not to settle for second world status, while our more ambitious children and grandchildren continue to flee. The exodus may well be sensible for those people individually, but it certainly isn't sensible for the society we have built here in New Zealand.

My second general concern relates to the way we are dealing with Maori issues. National campaigned in at least the last three elections on the principle that all New Zealanders are equal before the law. That principle was enshrined in Article III of the Treaty of Waitangi, which guaranteed that all New Zealanders would have the rights and privileges of British subjects.

Let me say to avoid the slightest ambiguity that I have always supported the Treaty settlement process. I still do. There were clearly gross injustices committed historically, and where those can be established beyond reasonable doubt, compensation should be paid to the descendants of those affected. One can debate how big those settlements should be, but I don't think any fair person can object to the principle of compensation, provided of course that it is both fair and final.

But there is absolutely no case that I can see for treating Maori people differently in general legislation, as is done for example in the Resource Management Act, which enjoins local councils to consult with their communities *and* with Maori. If I were Maori, I would find that grossly insulting language, patronizing, and implying as it does that Maori are not part of the community.

Nor are there any grounds for separate Maori political representation, in Parliament or anywhere else. The Maori electorates were established for a five year period in 1867. There is no logic for them at all 143 years later. Maori are absolutely capable of being elected to Parliament on their own merits, and when I was in Parliament there were 21 Members of Parliament with Maori ancestry, only seven of them elected in the separate Maori electorates.

And of course, the same principle applies to local government. Here in Auckland at the recent election, and without any special legislation, Maori achieved the proportion of elected representatives on the new Council that their numbers warrant.

The whole concept of a racially-based political party would be seen as grossly inappropriate if wanted by any other race than Maori. What would be the reaction, for example, if a group of New Zealanders of European background decided to set up a “European New Zealanders Party”? There would be an outcry, and rightly so. Why do we deem it acceptable to have a Maori Party in Parliament, a party which makes no attempt to hide the fact that its long-term goal is to build a “partnership” between Maori and the Crown, in clear contravention of the Treaty of Waitangi (which of course promised no such partnership)?

And of course, no discussion on Treaty issues today would be complete without at least a brief mention of the Marine and Coastal Area (Takutai Moana) Bill. Let me preface my remarks by saying that I have the very highest regard for Chris Finlayson, whom I regard as a person of outstanding integrity and great ability. He is also a personal friend.

But this Bill has potentially very serious implications. When John Roughan of the *New Zealand Herald* can say the Bill involves doing something “fairly dangerous”¹, and the editor of the *National Business Review* can argue that the Bill reflects Chris Finlayson’s “zeal to make Maori superior citizens” which will lead us to “a pathway to civil unrest of the likes not seen in this country since the 1951 waterfront strikes or the 1981 Springbok rugby tour riots”², it’s clear that something of historic proportions affecting every New Zealander is afoot. So why then has the Bill been referred to the Maori Affairs Select Committee, and not a special committee of Parliament involving all races, as Helen Clark did with her 2004 Foreshore and Seabed legislation?

We urgently need to reaffirm that what the Treaty of Waitangi plainly meant was that New Zealand would be one nation not two, that in return for Maori chiefs ceding

¹ *New Zealand Herald*, 6 November 2010.

² *National Business Review*, 5 November 2010.

sovereignty to the Crown their property rights would be respected, and that all New Zealanders, regardless of race, would be equal before the law.

I am not in Parliament and so don't want to pretend that I can comment sensibly on what our manifesto should contain for 2011. But it's important that whatever's in the manifesto is consistent with our Party's constitution. That constitution emphasises some fundamental values we must not lose sight of – respect for individual freedom and choice, personal responsibility, equal citizenship and equal opportunity, and limited government.

One of the problems in any democratic society is that when left-of-centre parties are in power they tax heavily the high-income minority to win votes from the majority. For at least a time, they can be almost guaranteed of winning if they take \$1,000 off one voter and give \$200 to each of five voters (after clipping the ticket on the way through of course!). Right-of-centre governments feel obliged to continue that policy, even where it violates their constitution and destroys the country's future. The problem is that, unless those policies are reversed from time to time, we get a steady increase in the size of government, and a steady increase in the tax burden carried by the most productive members of our community. It takes courage, vision and moral purpose to reverse that trend.

New Zealand is a great country, and we in the National Party are proud and passionate New Zealanders. But our great country is perhaps more at risk today than at any time since the Second World War. I believe it's safe to say that our relative decline – both in terms of our economy and in terms of racial harmony – will never be reversed if our political leaders allow themselves to be driven entirely by political polls.

Of course, leaders do need to listen and understand, and to know what concerns people have. But real leadership is about more than that. It is about starting from the aspirations – often poorly articulated aspirations – that people have, and seeking to communicate a vision for change. Leaders come to office with a vision for what their country could be. Great leaders take people with them in the direction of that vision.

Winston Churchill once recalled the time he heard a speaker say that leaders ought to “keep their ears to the ground”. Churchill's response was typical and as relevant in New Zealand today as it was in the United Kingdom 60 years ago. “All I can say,” he responded, “is that the British nation will find it hard to look up to leaders who are detected in that somewhat ungainly posture.”³

³ Quoted by the Hon Kevin Andrews, member of the Australian Federal Parliament, in his article “The Call to Political Leadership: reflections from an experienced politician”, in Maxim Institute's *Winter Selection*, 2010.