BUDGET 2015

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CHECK AGAINST DELIVERY

Thank you very much for the opportunity to be here today. It’s a pleasure as always to be back in the town that raised me.

Growing up in St Kilda meant that there was one thing that was a big part of my life- the beach. I was never much of a surfer myself, but there were plenty around me who were. I didn't need the Met Service to tell me when there was an off-shore southerly. I just had to look around the empty seats during some afternoon classes. Surfing was a way of life for a lot of my classmates.

But not even they thought that surfing was the path to wealth and well-being. They knew that the waves eventually break, and that no one was going to pay them for sitting on the beach waiting for the next swell to arise.

Today, when I look at the New Zealand economy I am concerned that we are failing to learn the lesson the grommets of St Clair and St Kilda worked out all those years ago.

As a country we have been far too content to ride the wave of global commodity prices, soaking in the good times, and failing to prepare for when the waves break- the prices plummet. The National government is lacking a Plan B or C, and we run the risk that without some urgent attention there are very rough waters ahead.

And it is all so unnecessary. We should be doing better as a country than we are. We remain a country blessed with wonderful natural resources, and talented and driven people. New Zealand businesses and workers work harder than most equivalents around the world. The opportunity is there for New Zealand to build an economy, and, in turn a society that offers the quality of life to all its citizens that is the envy of the world. But it will not happen with a government as we currently have tinkering and sitting on the sidelines.

What I want to do today is look at the major issues facing the economy and the government as it prepares next week's Budget, and offer Labour's view on how we move past an economy built on riding commodity waves and housing bubbles, and onto an economy that generates sustainable wealth and opportunity for all its citizens.

Treasury tell us that there will be 3% growth this year. This is good news compared to countries struggling to find much growth at all, or going backwards. Yet many New Zealanders are not feeling it.

When we had growth of three per cent under Labour in 2006there was a surplus of $7 billion and a jobless rate of just 3.7 per cent.

But this time around when we have 3% growth, we can't generate a Budget surplus, the number of unemployed is on the rise again to 146,000 people, and in the last quarter wage growth was a pitiful 0.3 of 1%. It's understandable people are asking what's the point of growth if it does not deliver a dividend to our people?

I believe that this was the lesson behind the recent by-election in Northland. While John Key and Steven Joyce were busy telling people in Northland they have never had it so good, the reality of their lives was very different. It's hard to believe that thousands of jobs have been created when you are facing an unemployment rate a tick under 10%.

That is the story I am hearing as I travel around New Zealand. In Gisborne this week I was incredibly impressed at the innovation and dedication I saw among small and medium sized businesses. But I listened to a host of concerns about their struggles to attract and retain skilled staff, lack of infrastructure and training opportunities.

The regions of New Zealand are feeling neglected, undervalued and left behind. And as a country we will not thrive again until we turn that around.

We have come to understand the regional inequality as being about what is happening in regions like Northland, Gisborne or Whanganui, and there is much to be concerned about there. But the ‘two New Zealand's’ as articulated last year by Moody’s rating agency is now really a tale about the fortunate few and the rest.

And that is the challenge for John Key. Will his government only deliver for the fortunate few or will he look to close the growing gaps. Is he just the Prime Minister for Parnell or is he also the Prime Minister for Pine Hill?

You know the median income for a family in Parnell is double that of a family in Pine Hill. The number of people unemployed in Pine Hill is double that of people in Parnell. Goodness even the houses in Parnell are making a killing, with the median house price in Parnell $500,000 more than in Pine Hill. The people of Pine Hill or Putararu or Palmerston North need a Prime Minister and a government who back them just as much as those in his own neighbourhood.

And this is not just about where you live. We will not thrive as a nation unless we give every citizen the opportunity to succeed. Andrew Little has clearly stated Labour’s view that we must generate wealth before we can distribute it. The challenge we must face up to is to ensure that the chance to generate that wealth is available to all.

Letting geography or accident of birth be the defining characteristics of our citizen’s lives means individuals miss out or are left behind, but also means we as a country are poorer. The OECD has joined the chorus of those who are acknowledging that a fair go for everyone means a more wealthy society. They said last year that the increase in income inequality in New Zealand over two decades from the 1980s has reduced our economic growth rate by more than 10%.

Addressing inequality is fundamental to our future well-being as a society. As a recent report from an Amercian think tank said, “for democracies to thrive rising prosperity must be within the reach of all citizens."

So how have we reached this point? One of the answers is to look at what is driving that growth. To begin with we have to take account of migration. We are experiencing strong flows of people into New Zealand. This is a mixture of the need for labour to work on the Canterbury re-build, and also the deteriorating economic conditions in Australia. International student numbers are also back up, particularly from India. If we take all of that into account, and actually look at growth per capita, it reduces from 3.3% to 1.8%.

Then we need to look carefully at what is driving the rest of that growth figure. There is no doubt the Canterbury earthquakes were not only a devastating event for the people of that region, but also a significant shock to the New Zealand economy in 2011 and had a negative impact on the books. But the reality of 2015 is that the re-build of Canterbury is now propping up the economy. Economists estimate it to be almost a third of GDP growth. Great while you can get it. But the reality is the re-build peaks this year and next year stops being part of the growth story.

The other issue that will not have escaped you is that the growth figures to this year include a record payout to our dairy farmers. Dairy was leading the pack of a set of commodity prices that have boomed over recent years. The April ANZ Commodity Index showed prices across a range of commodities had dropped 15% in the last year.

In dairy the last of the $8.40 farmgate payments are happening now. The latest forecast payout for the coming season is $4.50. That represents $7 billion coming out of the New Zealand economy. That's tough not just for the farmers who have to manage that, it’s also tough for the communities around them. Our estimate is that for Otago that represents $350 million that will disappear next year.

Our over-reliance on dairy (it is one-third of our merchandise exports) and the failure of this government to diversify the economy is now a serious risk to our economic security.

This was the blunt message that Reserve Bank Governor Graeme Wheeler delivered this week. He joked that he does not use terms like "rockstar economy", but his clear statement about the significant risks attached to falling dairy prices and the overheated Auckland housing market are both marks against the government's economic management.

I know talk of the Auckland housing crisis can be pretty boring for folk south of the Bombay Hills. But it matters for all of us for several reasons. While those of us from further south might wallow in the struggles of the Blues in the Super 15 this year, we do need Auckland to thrive as a city. It is our only truly internationally competitive city, and attracts a great deal of business activity and income for our country.

But it is, literally, bursting at the seams. Auckland Council estimates that there is an historic shortfall of 20,000 houses in Auckland. They need to build a further 10,000 a year to keep up with demand but in the last year only 7,700 building consents were granted. In turn average house prices in Auckland have exploded to $800,000, rising by 18% in the last year and 60% rise since 2008.

This matters to all of us. If the bubble bursts it will cause ripple effects across New Zealand. Domestic demand in the economy is high at the moment, and some of that is built off the apparent wealth of Auckland property owners. Moreover it is no exaggeration to say that you are paying higher interest rates today in Dunedin than you should be if it were not for the Auckland housing crisis. The Reserve Bank Governor would have lowered interest rates, now among the highest in the OECD, if it were not for his fear of pouring petrol on the overheated market.

In any event New Zealand will not get wealthy as a country selling houses to each other or to offshore speculators who are not interested in living in New Zealand but can see a quick buck to be made. We also will not get wealthy relying on riding the wave of commodity prices to deliver us long term sustainable growth and decent jobs. And we cannot rely on rebuilding from disaster to prop up our economic future. We need more than an economy built on milk, houses and disaster.

And that is what New Zealanders should be seeing in next week's Budget. We should be seeing the plan to diversify our economy, support and grow exports, grow our regions, build affordable housing and invest wisely in our education, research and development and our infrastructure.

So, what would a responsible government be doing in the Budget next week?

To start with, it would keep its promises. For the last two elections National has promised New Zealanders that there would be a Budget surplus this year. No one underestimates the challenges that have been thrown at our country, through the Global Financial Crisis and the Canterbury earthquakes. They were going to have an impact. But we were well prepared by, as economist Brian Easton calls it, the Cullen Cushion. We had zero net debt, we had saved for the rainy day and it allowed us to do better than others.

Four years on from the quakes and the GFC, the National Party has said that their management of the economy would deliver a balancing of the books in this year. Those promises were made in the last election campaign fully aware of the state of the global economy, the prediction of a five year global milk glut and the projections for low inflation. Yet this was still the test that National set itself, and it will fail. Actually Treasury is predicting it is likely to fail to get there in 2016 as well unless there is a remarkable rebound in global dairy prices.

When I grew up here in Dunedin we learned that a promise is a promise, that if you say you are going to do something then you keep your word. That very basic premise will be breached next Thursday.

Failure to get to surplus also means failure to meet another commitment from the government- to pay down any of our $88 billion of debt. It also means a failure to restart contributions to the NZ Super Fund.

We have a government fiddling, flummoxing and failing on the economy, and all the while leaving future generations with the bill for it. It is, in short, irresponsible. Out of touch and out of ideas this is set to be a Budget bereft of the vision and focus we need.

I want to highlight four areas that should be the focus of the Budget effort, or indeed should have been the focus of the last six Budgets as well.

Firstly, showing how the New Zealand economy will diversify and develop to ensure we are not so reliant on global commodity prices. And this is not just about dairying. I didn't think that there was anything that could dent my enjoyment of the Hurricanes winning run this year, but as I walk along the concourse to the Stadium in Wellington to my right is pile after pile of raw logs being sent off overseas for someone else to add value to them and sell the products back to us. We urgently need investment in new and added value industries to help grow the decent and high paying jobs of the future.

We need investment in sectors like ICT, high value manufacturing, wood processing and biomedical science. We need to look to the sectors that will support high paying jobs and protect and enhance the environment.

At the same time we must re-double our efforts to support exporters and small businesses who will drive growth in jobs. Exports in the year to March fell by 2%. Our annual trade deficit is $2.4 billion, the largest since the height of the GFC in 2009. The much vaunted promise by the National government to lift exports to 40% of GDP is now being re-written as they slip backwards below 30%.

Secondly the Budget should show a real commitment to invest in our regions. While Auckland has its place as our largest city, we will not generate the wealth and lifestyle we want for future generations with such a focus on one region.

I believe this requires an active policy of targeted financial investment, support for research and development through tax credits, stronger innovation partnerships, procurement policies that give Kiwi firms a fair go, support for education, especially regional polytechnics and encouragement of positive migration to the regions.

Imagine what Dunedin could be if a government got alongside this city and this region with those policies?

- We could have a thriving high value, high tech manufacturing sector built of the success of the Hillside workshops, spawning other companies making the use of the cluster of engineers and designers attracted to the city.
- There would be new companies sprouting from the confidence given by a research and development tax credit, and the collaborations with universities and crown research institutes, including AgResearch's thriving base at Invermay
- Imagine Otago Polytechnic operating as a Centre of Excellence for design attracting the best and brightest from around the country and around the world.
- And of course we would have the services and infrastructure to back that up- a modern hospital, good schools and decent broadband. Not just won in a competition but here and in other regions because it is the key to our future.

Our approach to the regions is not about picking winners from a list of companies we know from the Koru Club- it is about backing the talent and ideas that are in the region. It's about forming a partnership with local government, business, and educational providers. It's about investing wisely- not taking a punt on the whim of a Minister.

The third area that this Budget should focus on is taking the steps to make housing affordable for all New Zealanders. While the Reserve Bank can try to deal with some of the demand issue, the government cannot outsource housing policy to them. It is high time for the government to clamp down on foreign speculators and ensure affordable housing is being built.

Labour's KiwiBuild policy was our attempt to deal with that issue. My challenge to the government is that if that is not the right answer, what is yours? Surely it can't be to sell state houses and tinker about with the RMA? New Zealanders deserve better than that.

Finally, the Budget should be investing in our future wealth and well-being through education and training to prepare for a new economy. This is one of the reasons Labour has established our Future of Work Commission that I am chairing.

Andrew Little has asked me to lead this group to identify how we will ensure that we take the opportunities of the changing nature and experience of work.   Massive change is ahead. 47% of jobs in the USA have been identified as being at high risk from technological change. And this is not just robots replacing forklift drivers, it is in the professions like accountancy and law.   We need to ensure our education system is preparing people for the jobs of tomorrow, and to be global citizens.

We need a greater focus on ensuring that young people are receiving quality careers advice and that schools are supported to partner with business and tertiary providers to give them the best guidance on their next steps. We desperately need a strategic approach to education and training to take the opportunities of the new economy.

I got a wonderful start in life growing up in this city. I didn't feel that my chances in life were any less than someone who was growing up in Auckland. My vision is for an economy that provides the opportunities I had to all our people

I know we must be careful and prudent with the country's books (goodness I come from a Scottish Presbyterian background after all) but we must not believe that the economy is the end in itself.

Our legacy should be an economy that delivers decent work across New Zealand from the engineers in South Dunedin to the farmers in South Otago. If you work hard and do your fair share there should be great opportunities here in New Zealand.

Our legacy should be a pay packet that sustains individuals and families. If you do a day’s work, the money you earn should be enough to support your family, and put a bit away for the future. We have so much going for us in New Zealand, no one should be left behind.

And fundamentally no matter who you are or where you live our legacy should be an economy that provides hope for a better tomorrow, for you and for your community.

Thank you.