



Hon Grant Robertson

Minister of Finance

SPEECH

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## Pre-Budget speech to the Wellington Chamber of Commerce

Thank you to the Wellington Chamber for hosting and thanks to all of you for making the time to be here.

I am delighted to be here to talk about the up-coming budget, and to tell you a little about what will be different, and indeed what will be the same.

There has been a fair amount of attention in the media here and internationally on this year's budget – our country's first Wellbeing Budget.

Enough for me to be invited to the recent Spring Meetings of the World Bank and International Monetary Fund, to talk about our approach. Our ideas are interesting to many countries as they seek ways of building truly sustainable economies that deliver prosperity and fairness, and that build trust.

At those same meetings, global economic forecasts were further downgraded for 2019, after having been downgraded only six months earlier. Global growth is now expected to be 3.3% for the year. As the IMF Head Christine Lagarde said, the global economy is still growing, but it is growing more slowly.

The IMF projections for New Zealand are that we will grow at around 2.5% in 2019 and 2.9% in 2020. The average growth for advanced economies in the same period is projected to be 1.8% and 1.7% respectively. We are projected to grow faster than the US, the UK, Japan, Canada, the Eurozone and Australia. Indeed, just last week the Reserve Bank of Australia further lowered its 2019 growth forecast for the Australian economy from 2.5% to 1.75%.

There are certainly significant challenges in the global economy, and New Zealand is not immune to them. The tariff war between the US and China has burst back into life, and was a major factor weighing on the minds of those I met with in Washington. So too, the uncertainty created by Brexit and its impact across Europe. All of this adds up to a global environment in which New Zealand exporters operate that is both unstable and uncertain.

Here at home we know that the fundamentals of our economy are strong. We continue to have historically low unemployment and stable, low inflation. This is supported by budget surpluses and low public debt due to our Government's responsible fiscal management.

There has been a slowing of growth from the heights of recent years as the international situation impacts on New Zealand, and as both immigration and the housing market slow to more normal levels. But we are well positioned to deal with this slowdown. And we are holding up well.

Exports and commodity prices are up, as are building consents and consumer confidence. There are challenges to lift business investment, but the base is there to see New Zealand through this challenging period.

Recently I even heard someone utter the “rockstar” word again in respect of our economy. Actually, it was the same person who said it the first time. While it is very flattering and the New Zealand economy is strong and we are doing better than many of our peers, I think it is a term best avoided.

For many New Zealanders the use of this phrase was jarring when they heard it several years ago. Sure, we had – and have – GDP growth rates that many other countries around the world envied, but for many New Zealanders, this GDP growth had not translated into higher living standards or better opportunities. How could we be a rockstar, they asked, with homelessness, child poverty and inequality on the rise?

This gap between rhetoric and reality was in many senses the defining issue of the 2017 election, and what led to the formation of the Coalition Government.

This gap between rhetoric and reality, between haves and have-nots, between the elites and the people, has been exploited by populists around the globe.

It is a long-term view of mine, and the parties that make up this Government, that we need to close this gap in an inclusive, not exclusive way, because it is the right thing to do and because we need to do so to ensure the public keep faith and trust in government.

To do this we need a different view of what constitutes success.

GDP remains an important measure of activity in an economy, but it doesn't tell us about the quality of that activity.

We still have thousands of young people not in employment, education or training. The home ownership rate has fallen to its lowest rate in over 60 years. We have one of the highest youth suicide rates in the OECD. Hundreds of thousands of children are growing up in poverty. And Māori and Pasifika continue to experience poor outcomes.

For me, a simple growth rate is just not sufficient to tell us what success looks like.

Our Government will measure its success by how well we improve the living standards and wellbeing of all New Zealanders. Yes, we need prosperity, but we also need to care about how we sustain and maintain that and who gets to share in it.

In order to succeed in this, we need all the tools available to the Government to consider wider wellbeing outcomes, to ensure that everything the government does is done explicitly to improve the lives of New Zealanders.

The government does not dictate a person's wellbeing. But if we make improving wellbeing our purpose then we have a decent shot at helping improve the lives of all our people.

Obviously one of the most powerful tools available to the Government is the budget. This year we've put wellbeing at the heart of the budget process.

Wellbeing has certainly become something of a buzz word lately, so I want to take the opportunity today to explain what the Budget will mean for you, your companies, and for New Zealand.

For me, wellbeing means people living lives of purpose, balance and meaning to them, and having the capabilities to do so.

There are three fundamental elements to our wellbeing plan.

First, a whole-of-government approach. This is about stepping out of the silos of agencies and working together to assess, develop and implement initiatives to improve wellbeing.

Secondly, a wellbeing approach means looking at intergenerational outcomes. We have to think about the long-term impacts on future generations at the same time as meeting the needs of the present.

Thirdly, we need to move beyond narrow measures of success.

The Treasury's Living Standards Framework is at the core of our approach to this Budget, but the Government also has other success measures to draw on as well, such as child wellbeing and poverty indicators, and Statistics New Zealand's Indicators Aotearoa New Zealand. Taken together, these are steps forward in giving ourselves a much richer picture of how we are tracking as a country.

Ultimately the wellbeing approach still needs to help us make better decisions, identifying trade-offs and balancing outcomes.

I'm sure many of you will have experience in making difficult trade-offs in the business world. Perhaps you've had to weigh up a payoff in the short term and reputational impacts on your brand over the longer term.

A wellbeing approach is about taking a wider view, recognising and weighing up the overall pros and cons of government policy on all of the things that enable New Zealanders to live lives of purpose and value.

It is important to note that the wellbeing approach is more than just the budget. Our job is to ensure that the whole system of government is geared towards improving wellbeing and living standards.

The focus at budget time is on new spending, but there is much to do to make sure that the baseline and core expenditure is aligned to our goals. I will have more to say about this in the coming weeks, but we have to ensure our legislative framework, planning, reporting and accountability arrangements shift to support the wellbeing approach.

Functionally, this requires a different approach to the way budgets have been done in the past.

Previous budgets have essentially been a contestable fund. Individual agencies would develop and submit bids. The Finance Minister and a small group of other Ministers then made relatively arbitrary decisions on what would and wouldn't be funded.

So what is different about this budget?

Fundamentally, this year we have taken a much more strategic approach to the budget's development and production.

The budget priorities have been developed on the basis of a wellbeing analysis. We have looked at the evidence to assess where we have the greatest opportunities to make a difference to New Zealanders' wellbeing and we have focused our efforts on those opportunities.

To inform this analysis we have drawn on demographic and other data from the Treasury's Living Standards Framework dashboard, as well as other evidence and advice from science advisors and other sector experts.

This information does not necessarily tell us what interventions we should make, but it shines a powerful light on where interventions are most needed, and where we can make the biggest difference.

The Wellbeing Budget priorities developed from this approach are:

- Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy;
- Supporting a thriving nation in the digital age through innovation, social and economic opportunities;
- Reducing child poverty and improving child wellbeing, including addressing family violence;
- Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds; and
- Lifting Māori and Pacific incomes, skills and opportunities.

These represent some of the biggest long-term challenges and opportunities that we face as a country. They will not be solved in one go. These are obviously complex, multi-faceted issues, requiring sustained attention and a collaborative, joined-up government.

Ultimately, like in business, investments should align with strategy. I'm sure all of you agree that expenditure should not be undertaken in isolation; it needs to be in coordination and alignment with the outcomes you seek.

Previously, Ministers and agencies have been able to focus almost exclusively on their particular areas of responsibility in the budget process. But this year multiple agencies and Ministers have been expected to contribute towards the budget priorities, and to show how their proposals are contributing to overall wellbeing.

We know that the old silo approach has not worked. Complex issues like mental health, climate change, the future of work and child poverty require a multi-agency collaborative approach. We have been strongly encouraging collaboration among agencies in the development of Budget bids.

I'm excited by the joint initiatives that have come through this process.

For example, last week we announced the Wellbeing Budget will contain funding for a new pathway for Māori high-security prisoners. The initiative is co-designed by Whānau Ora, Corrections, the Ministry of Social Development and iwi, and aims to tackle the long-term challenge of Māori overrepresentation in the prison system.

In developing this initiative, we looked at the evidence. We know that 76 per cent of those in high security settings identify as either Māori or Pacific. We also know that of that 76 percent, some 53 percent of them are released from high security. The reimprisonment rates of people released from high security are above 70 percent.

Former Chief Science Advisor, Sir Peter Gluckman noted that previous responses to addressing the incarceration rate for Māori have largely been individualised, ineffective, and guided by non-Māori world views.

The new pathway will enable people to experience a Māori and whānau-centred approach for all of their time with Corrections, from pre-sentence to reintegration and transition in their community. It will initially focus on Māori men under 30 years of age, as this group has the highest reconviction and reimprisonment rates.

This initiative acknowledges that our system does not work for Māori. The answer is not just another programme. This is a system change, a culture change inside our prisons to adopt a strengths-based approach to rehabilitation.

For me, this is a great example of the wellbeing approach in action. Multiple agencies coming together to address a long-term challenge with an evidence-based and expert-informed approach. The payoff will be a long term one that will have massive social and economic benefits. As former Prime Minister Bill English once said, prisons are a moral and fiscal failure. This initiative is one step in turning that around.

This is just one example of how a wellbeing approach can influence policy formation and spending decisions for the better. You will see many more examples like this in this year's budget.

While there will be many things that will be different in the Wellbeing Budget I want to be clear that it doesn't mean simply writing blank cheques to fix the current problems we see.

Fiscal sustainability is an inherent part of a wellbeing approach. It's about making sure we meet the challenges of today without compromising the ability of future generations to do so.

Most of the focus during the budget process is usually on where new spending will be allocated. But we also have to look at whether existing spending is delivering value for money and aligns with Government priorities. This isn't new and Governments of all stripes have reviewed spending in the past.

Taking a wellbeing approach doesn't mean backing away from this.

During this budget I asked all Ministers to identify 1 percent of their baseline spending that was the lowest priority in their area. This spending was then assessed on the basis of its effectiveness and alignment with the Government's priorities.

Out of this we have identified just over \$1 billion worth of spending over the forecast period that is no longer a priority or where the funding allocated is no longer needed.

I can announce today that one example of this was underspending on the Fees Free programme due to enrolments not meeting initial forecasts. This funding, some \$197 million, is now to be redirected to the implementation of the Reform of Vocational Education, which Education Minister Chris Hipkins is working through.

I know from conversations over many years with this Chamber that this is an area where you want reform, and so do we. Put at its most simple, we need to value apprenticeships, trades and workplace training more. We need it to be higher quality, more accessible, more coordinated, and more relevant to businesses and regions.

The proposals are still being finalised but the reprioritisation of funding that I have announced today is an initial indication of our commitment to making this work.

Without fail, the first issue that businesses raise with me is the need for more skilled staff. For New Zealand to become a more productive nation it is vital for us to get this right. These reforms are an important step in that direction.

Getting it right requires partnership. For us to achieve the wellbeing outcomes we seek, we need to work with all our social partners, including business.

Andrew Haldane, Chief Economist at the Bank of England, provides an interesting link between wellbeing and economic growth. He tracked phases of economic growth over centuries and noted that it has been the emergence of institutions that saw rises in human and social capital that were essential pre-conditions for economic growth.

Haldane divides these institutions into “enabling” institutions, like free primary and secondary education that better equip the workforce, and “insuring” institutions, like central banks or trade unions that provide the cushion of certainty and support through periods of change.

Change on an unprecedented scale is without doubt what we are all facing as we speak. Forces such as artificial intelligence, globalisation, big data and climate change are causing ongoing and lasting impacts on our economy and society.

So the Government has a role to play in providing enabling and insuring institutions, and working as a partner, so that businesses and workers truly flourish in this period of rapid change.

It is my firm belief that lifelong learning is one of the enabling institutions for the coming decades. That is why it is one of the four focus areas for the Tripartite Future of Work Forum that I lead with Kirk Hope and Richard Wagstaff.

Through the forum we are jointly funding the Skills Shift Initiative with the Manufacturers Network to map out the skills needed in that sector over the coming decades. We see this as a pilot for other sectors to identify their skill needs and design the programmes needed for the future.

This focus on new skills is what lies behind Fees Free and the reform of vocational education. It is why the Prime Minister’s Business Advisory Council have led the Skills Pledge, a commitment for businesses to double their investment in workplace training over the next five years. It is why we are investing more than ever in programmes like Mana in Mahi, He Poutama Rangatahi and employing more case managers at Work and Income to support people into training and work.

And it was a significant topic of discussion at the Just Transition Summit in Taranaki last week.

In this area, as in others, it is not solely the Government that drives change. Nor is the Government solely responsible for improving wellbeing.

Over the past decade or so, more and more businesses have shifted their emphasis from solely financial measures of their success, to include their social and environmental impacts as well.

This behaviour has not been driven by government regulation or intervention, but by a desire to have the most productive and effective business possible.

A growing number of consumers are taking a keen interest in the ethical and environmental impacts of company supply chains. Firms that can demonstrate more ethical and

responsible behaviours are at a competitive advantage with these consumers, despite the potential added financial costs of doing so.

I know that as businesses you are constantly challenged to make change and take tough decisions to focus on the wellbeing of your staff, the environment, or society at large.

The Wellbeing Budget is our own first attempt. We are not going to get things 100% right the first time around. Governments have been preparing budgets the same way for decades, so this is a significant change. But we are learning throughout this process and will look to improve it over years to come.

In closing, I want to reiterate the difference we are making with this Budget.

The Wellbeing Budget is about a new approach to tackling New Zealand's long-term challenges. It is about a joined-up government focused on building the capabilities of our future generations.

Our priorities are clear. We are:

- Taking mental health seriously,
- Breaking the cycle on child poverty and domestic violence,
- Investing in crucial national infrastructure, like building new hospitals and schools; while
- Managing the books responsibly, and
- Addressing long-term economic challenges like building a sustainable economy and preparing for the jobs of the future.

These problems have been ignored for too long. We're proud to be getting on with the job of starting to fix the long-term challenges facing New Zealand and providing opportunity for all.

Thank you.

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