Finance

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Speech to INFINZ breakfast – Getting New Zealand back on track

The year 2020 will surely prove to be one of the most dramatic and volatile years in recent history – in health, in the economy and in politics.

Many people's lives have been upended by the Covid crisis; many businesses, large and small, have been pushed to the brink and over it by events out of their control.

I was talking on Monday to a several owners of international education businesses. They were at their wit's end, not knowing if they'd have a business at all in 2021 and wondering how on earth they could survive.

The COVID -19 lockdown and subsequent restrictions have come at a high economic cost. We are paying collectively through a smaller economy and fewer jobs.

The pressure has also taken its toll in the political arena.

The striking thing, however, for me about Tuesday's events is that the National Party started the day in chaos and crisis, but ended it sorted, united and focused on winning the election in September.

Judith Collins has the experience, the steel, the intellect and the determination to ensure that National provides a real contest for the current Government.

My strong sense is that New Zealanders want that contest. Many are desperately worried about the trajectory that this Government is following – an incredible flood of spending and debt combined with little understanding of the realities of business investment.

With Gerry Brownlee as deputy, we have a leadership team that's more than a match for Jacinda Ardern and Kelvin Davis. People are constantly surprised to hear that Kelvin Davis is the Labour deputy – but he is. Sadly, representing one of the 17 empty chairs around the Cabinet table that our former leader correctly identified.

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If we start with the global context, we see that the IMF estimates global GDP growth will fall by 4.9 per cent this year.

They estimate the New Zealand economy will contract by 7.2 per cent. The OECD on the other hand take a more pessimistic view, estimating that New Zealand's GDP will fall by 8.9 per cent - worse than the OECD average of 7.5 per cent.

What we've actually seen, meantime, is that our GDP fell 1.6 per cent in the three months to March, mostly before the Covid crisis.

NZIER's latest quarterly survey of business opinion showed that more than a third of businesses are planning to reduce staff over the next three months. The survey also showed significantly negative investment intentions and sharp declines in business activity.

When we turn to the fiscal impact, the situation is extreme. The Budget Economic and Fiscal Update showed core Government debt rising to $200b over the next four years, an increase from around 20% of GDP to around 54% - the highest level since the early 1990s.

That is on the back of more than $100 billion in deficits over four years.

Budget 2020 projected a $28 billion deficit, created in just the last four months of the 2019/20 budget year – that's a rate of just over $1.6 billion a week. Or equivalent to borrowing the annual Pharmac budget roughly every four days.

Annual deficits of nearly $30 billion are budgeted for the next two years as well, with many commentators regarding these figures as highly optimistic.

The current Government's track record of burning through the massive surpluses it inherited within two years, to project a deficit before Covid19 struck, provides little confidence that they are capable of constraining spending.

This leaves New Zealand at a critical juncture.

We can return to prosperity, we can restore our ambition, we can provide a good standard of living and opportunities for all, but it requires careful and competent economic management in the next few months.

We need to reduce the damage in the short term, we need to act responsibly with Government spending and debt and to have a credible growth plan.

I think many of us share the concern that we're not seeing much of that from the current Government. Instead we're seeing too many slogans, too much spin and good intentions.

"It's the thought the counts", might be a good excuse for a bad birthday present, but it's not a sound basis for policy at a time of national crisis.

Almost every day we hear the Government will spend $x million dollars on a project and it will create thousand jobs.

It feels like ministers believe the mere announcement of projected jobs is enough.

This is from an administration that has become a byword for failing to deliver on its promises. KiwiBuild promised 100,000 houses; but the Prime Minister's ill-conceived intervention at Ihumatao has stopped more houses being built there than the entire KiwiBuild programme has delivered so far.

We were promised Light Rail direct to the airport. That has been abandoned, after nearly three years of huge cost and effort that diverted energy and attention from all the other useful transport projects that have been needlessly delayed.

Shane Jones promised tens of thousands of jobs from the Provincial Growth Fund. Details of the real outcomes so far are almost impossible to find, but their own latest estimate is 1,272 jobs as at 30 April. At the cost of billions.

Meantime, we continue to see a lack of accountability on spending decisions. The latest example is the complete absence of any published criteria or cost benefit analyses for the projects chosen for the 'shovel ready' money in the past few weeks.

It seems the message has been sent from the Beehive, just get the shovels into the ground before the election regardless of whether the project stacks up on any rational basis.

Aside from its poor management and delivery, the Government's primary error is its assumption that the best way to create jobs is for the Government to buy them.

Free enterprise, it seems, can't be trusted; the expansion of the state will fix every problem.

National has a different view. Astute Government investment during a crisis can help generate jobs, but the primary engine of sustainable job creation is private sector investment.

Last week we outlined National's Economic Framework. The core pillars are:

- Responsible Economic Management
- Delivering Infrastructure
- Reskilling and Retraining Our Workforce
- A Greener, Smarter Future
- Building Stronger Communities

Today, I will focus on the responsible economic management.

Why? Because the economy is about people. It's about you, me, our families and our neighbourhoods.

To me, the point of a strong economy is to enable New Zealanders to do the most basic things in life well.

A strong economy improves our chances of finding satisfying and well-paying work so that we can look after ourselves and our families – the most fundamental task each of us have.

A society based on the assumption that its average citizen can't or shouldn't be expected to look after themselves and their families is doomed.

That's not what we believe.

Work itself, in its countless varieties, brings the opportunity to make a contribution to our world and the people in it, whether we're providing someone with a new hip, a new app, or a cup of coffee with a smile.

And third, if we do well we can enjoy our success – however we measure it – and give something back to our communities and neighbourhoods.

That, to me, is the good life to which we aspire.

As well as generating work and opportunities, good economic management and a strong economy enables the country to provide better public services that improve our lives – a quality education, access to world-class healthcare when we need it, decent transport infrastructure so we can get home on time, the reassurance of superannuation when we're old.

At certain times of their lives some people can't look after themselves and their families; this is especially the case during times of significant jobs losses. The stronger our economy is, the more we can help.

So, what's the best policy response to restore New Zealand to position where it's creating jobs, at or above the rate of nearly 10,000 new jobs a months as we did in the last two years of the previous National Government? And how do we improve our productivity so we can produce more satisfying and higher paying jobs?

As I've said, the current Government's primary response seems to be for the Government to buy jobs. It plans to spend billions to pay for people to plant flax bushes, kill possums, to go through Mana-in-Mahi programmes and to build public works.

Meantime, its approach to saving existing jobs or temporarily subsidising them makes no sense whatsoever. Shane Jones can subsidise countless businesses through the PGF; the Government will give $10 million to a bungee jumping company, $280 million to NZ Post, but won't lift a finger for perhaps 2,000 jobs generated by Tiwai.

We haven't been privy to the discussions around Tiwai and the transmission charges, and so I'm prepared to withhold judgment on the merits of that decision; but the point remains, the current Government has no consistency or discernible principle in its approach to regional jobs.

Particularly during the lockdown period, urgent Government spending made sense to avoid the failure of businesses that were otherwise sound.

We supported the wage subsidy, and advocated for more spending during lockdown. Our GST refund for businesses up to $100,000 would have helped businesses cope with overheads, such as rent, recognising those businesses were being crushed not because they were bad businesses but because they were told to close for the benefit of the country. They had no time to prepare, to 'reef their sails' before the ongoing storm.

The Government's failure to help with the costs of overheads, despite promises from early April around a rent package, will have added to job losses.

National absolutely agrees that Government investment in quality infrastructure makes sense, particularly at a time when private investment is weak.

Judith Collins will have more to say about infrastructure soon, and will show the scale of our ambition in this area.

We won't just be building roads and public transport for the sake of it, but to reduce congestion and to get people and freight where they need to be faster and with more reliability.

We also won't hesitate to invest more in social spending where it solves problems, rather than just servicing poverty. All the evidence shows that wise and targeted investment during the first 1000 days of life pays big social and financial dividends, but it has to be disciplined and focused.

Government spending, however, cannot provide the full plan. The money has to come from somewhere – it either comes from current taxpayers, leaving them with less to make their own investments, or from future generations – leaving them with less to make their own investments.

The primary driver for growth and jobs needs to be the private sector.

The recipe for this hasn't changed.

It requires disciplined Government creating an environment where businesses feel confident to invest and a mix of employment-friendly policies that make it easier to take on new people.

The core elements are:

- Low taxes
- Regulatory restraint
- Consistency
- An openness to investment
- And in the Covid recovery context we can add, a path to make progress on the border.

Tax

On taxes, we will see a sharp contrast during this campaign between a National Party determined to hold the line on taxes. We won't introduce new taxes. We will adjust the income tax thresholds in our first term for inflation, and will do so regularly thereafter. We will also cancel the Auckland fuel tax and not increase fuel taxes in our first term.

We won't have a Capital Gains Tax, or a Wealth Tax, or Death Duties or any other new form of tax for New Zealanders.

The Greens want higher incomes taxes and a punitive wealth tax. Labour clearly want higher taxes, but haven't outlined them yet.

They might try to win a few votes by promising some New Zealanders that they will tax other New Zealanders more.

But Kiwis will rightly conclude that a Government unable to control its spending will eventually come after them.

Meantime, our policy to allow companies to instantly write off assets up to $150,000 per asset over the next two years will turbo-charge investment.

We recognise that there are many businesses in New Zealand with access to plenty of capital. We need them to drive growth and job-creation over the next few years, and we're determined to make it easier for them to do that.

Regulatory restraint

On regulatory restraint, the good news is that there is a lot we can do here.

Sadly, the greatest growth industry in New Zealand for far too long has been compliance.

Some of the extra compliance has been justified, but in too many areas we – the legislators and the Government and council officials – have gone too far and have lost sight of reality that it's the consumer that pays for most of it, either directly or through the lack of competition as expensive regulation favours large incumbents in any industry.

My primary goal as Minister of Finance will be to translate the same discipline the previous National Government demonstrated with fiscal policy to the regulatory side.

I would task Treasury with substantially beefing up its core role of imposing discipline through its Regulatory Impact Statements process and cost benefit analyses. It is nowhere near assertive enough.

The previous National Government had room for improvement in this area; the current Government has made a mockery of those processes.

As well as overhauling the RMA and dialling back some of the excesses of existing regulation, such as the excessively bureaucratic Anti-Money Laundering legislation, we'd put a hold on new regulations for the next 18 months, exempting emergencies, to give stressed businesses post-Covid time to adjust.

Our intention thereafter to knock out two existing regulations for each new one introduced, is a crude mechanism, but it's intended to send a powerful signal to Ministers and officials that we can't keep adding layer after layer of bureaucracy.

Meantime, extension of the 90-day trial to all businesses and the postponement of next April's planned minimum wage increase will make it easier for employers to take on new employees.

National's JobStart $10,000 payment for additional employees after the election will also encourage some wavering employers to take the plunge and hire that new staff member.

Fundamentally, we need to allow New Zealanders to do things. The answer to more questions has to be 'yes, we'll find a way to make it happen'.

Consistency

On consistency, we live in a world of flux and unpredictability. We can't control that. But good Government doesn't chop and change laws without warning and in haste.

The manner of the current Government's ban of offshore oil and gas exploration was a text-book example of how not to do things. With no warning, consultation or analysis.

That decision raised our sovereign risk rating at a stroke.

The flurry of legislation being passed under urgency, without proper select committee scrutiny, these past few weeks, doesn't help.

We recognise that people making investments – creating jobs and wealth for the country – crave as much certainty as they can get before making that investment.

Our pledge will be to restore proper process.

Openness to investment

On an openness to investment, notwithstanding the crisis, the world is awash with capital looking for safe harbours and decent returns. We need to attract more of that money.

Current Government policy is to further restrict the flow of money into New Zealand.

The emergency Overseas Investment powers set up a notification process for all inward investment, no matter how small, if it changes the balance of ownership.

This puts more sand in the gears of investment.

There is an argument for being cautious about foreign state owned enterprises or entities with unclear ownership structures sweeping into the country during a crisis to purchase strategic assets at fire-sale prices, but the threshold for this surely has to be high.

It is ridiculous and counter-productive to extend that process to any small business looking to raise some equity from friends or family offshore.

Nor do we see anything to be gained by stopping wealthy investors from offshore seeking to build high-value new houses in New Zealand.

Judith Collins will have more to say on this topic at the appropriate time, but at a minimum I can say we'd remove restrictions on people from overseas building new houses, over a certain value.

If wealthy people from around the world want to come and base themselves here, and then to start investing, we should welcome them with open arms.

The Border

On setting a path to make progress on the border, we recognise the great anxiety throughout the community about the recurrence of the Covid19.

The most important thing for the economy is to avoid a return to any sort of lockdown. That is why competent management of the border and quarantine arrangements is vital.

But we also recognise that huge restrictions on tourism, international education and the many other industries that rely on interaction with clients offshore and skilled workers from overseas, will drop our living standards significantly if extended too long.

We need a path towards the opening of bubbles with countries, or states, with similar Covid status.

We need a process to allow skilled workers or investors to come here, to pay for their isolation, and then get on with rebuilding our economy. The current flat 'no!' to everyone but the Government's arbitrary list is unsustainable.

Then we need to see a path next year towards a risk-based border system, using the latest testing and tracing technology to reduce the friction at the border.

My health colleagues will have more to say on that in the next few days.

Debt

Finally, I wanted to discuss debt.

Labour forecasts net core debt will reach 53.6 per cent of GDP in 2024 under their policies. That's an eye-wateringly high level. There is every reason, given the spending patterns of the past three years, to believe that a returned Labour led Government would take it higher than that.

Then even alongside predicted strong economic conditions in the future, Budget 2020 predicts net core debt will remain as high as 42 per cent in 2034. At that rate of decline, New Zealand would not get back to 20 per cent of GDP, which has been regarded as prudent now for several decades, until perhaps the mid-2050s.

The actions will take today could leave a legacy of debt for future generations. We are making choices that will impact them tomorrow.

Such levels of debt would leave our children and grandchildren – and also ourselves – profoundly vulnerable to the inevitable next shock.

We can argue about whether the drop in interest rates, and the ability of Governments world-wide to lock in low interest rates on long terms, means that prudence might have shifted a bit from 20 per cent of GDP since the early 1990s.

But New Zealand's long standing challenges remain – high private sector and household debt, small population and the vulnerability of our economy to either geological or biosecurity shocks.

Italy and Japan, for example, may have very high public debt; but they also has massive private savings. Italy has a Net International Investment Position of -4% of GDP. Japan has a Net Position of positive 65%. New Zealand's net position is negative 58%, one of the worst in the OECD.

Our sense is we need to demonstrate a path back below 30 per cent, in the first instance, within a decade, give or take a few years.

It is difficult, given the extent of the global uncertainty, to plot an exact path right now. But we would commit to setting that out clearly in our first budget.

And, just as it is for creating jobs, the recipe for getting on top of debt hasn't changed.

Rather than the lazy option of putting up taxes, the Key/English Government relied on a mix of consistent disciplined spending and growth-orientated policies.

We can do it again.

During a crisis, such as this, we can't lose sight of the normal disciplines of spending – prioritising spending, making tough choices, focusing on results.

My starting point would be a rebooting of Treasury's capacity and authority within the public service on spending. In our view, Treasury has lost the capability to fulfil its role as a watchdog on Government spending.

We'd work in three areas:

- Running the rule through spending in the current Covd19 fund, to reduce the peak of debt

- Reprioritising poor quality spending
- Temporarily holding back nice-to-have spending.

On the first, we'd be asking tough questions about whether all the spending announced daily from the Covid fund is actually required and has clear outcomes.

The $1.1 billion for possum hunting and other Government make-work environmental jobs is extravagant – we would free up most of that money for more useful spending.

The $900 million for loosely defined Maori initiatives appears like a figure that has been thrown up on to a whiteboard, without real discipline. We'd run the ruler through that.

The $400m Tourism Fund is nothing but hand picking a few lucky tourism businesses, like the Bungee Jumping bailout, that make a good photo opportunity. Again, we would free up most of that money for better use.

On reprioritising poor quality spending, Labour's Budget has simply taken all current spending as a base, then added Covid spending on top with no adjustment. We can't avoid prioritising.

A prime candidate is the free fees project, which will cost around $1.5 billion over the next four years.

KiwiBuild has been an absolute failure. We would stop pouring money into it, allowing us to reprioritise the $1 billion or so that is still yet to be spent from its $2 billion allocation.

And we will means test the Baby Bonus so only those who need it, will get it.

On temporarily holding back nice-to-have spending, an obvious place to start is suspending new payments to the New Zealand Super Fund for the next four years. That alone would reduce core crown debt by $9 billion over four years.

That just a start – just an indication that with discipline, and focus on priorities and results we can still have plenty of scope for investment during a crisis, and to maintain critical health and social spending, while at the same time reduce the size of the debt mountain and set a credible path back to prudent levels in a reasonable time.

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To conclude, there is and can never be a single, whizz-bang policy that solves an economic crisis, like the one brought on by Covid19.

The National Party can't and doesn't want to outspend Labour.

But we can show more ambition where it comes to quality infrastructure that helps our economy grow faster.

And we are prepared to spend more in certain areas, where the gains can be demonstrated.

And we will be honest and real about where sustainable jobs come from. Not primarily from Government programmes directed by Phil Twyford, Megan Woods and Shane Jones, but instead from the investment decisions made by the tens of thousands of business owners, large and small, to back themselves and their employees to get ahead, with their confidence bolstered by seeing a disciplined and competent Government that has their back.

Fundamentally, we trust New Zealanders to succeed in a free enterprise environment, confident that a National Government will have their back.

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