

**LABOUR'S LEGACY:
A FALTERING ECONOMY**

**An address to the Orewa Rotary Club
by Don Brash
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Mr. President, Ladies and Gentlemen. It is a great pleasure to be back at Orewa.

I had of course hoped to be here this year as Prime Minister! And we came close – but not quite close enough. But I join you this evening as the leader of a much strengthened and invigorated National Party.

The great boost in support National received at the last election brings with it a responsibility that we take very seriously – to show that we have the ideas and the people capable of addressing the challenges that lie ahead.

And to show that we can do that while safeguarding the core values and the many strengths of our increasingly diverse society.

Given our faltering economy, and a Government that doesn't seem to know what to do, it is becoming increasingly clear that National's plan of action is what is needed.

In my very first speech after becoming Leader of the National Party more than two years ago, I highlighted the five issues which I believed we needed to address urgently if New Zealand was to have the kind of future which all of us want, for ourselves and for our children and grandchildren.

Over the last two years, I have spelled out clearly where a National Government would take the country in each of these five areas.

Tonight I want to briefly restate where the National Party stands on four of the issues, talk more about one of them, and outline some of the other key issues which I believe we need to focus on before the next election.

Almost exactly two years ago, at this Orewa Rotary Club, I spoke about the Treaty of Waitangi and its meaning for 21st century New Zealanders.

I argued that we should be dealing with all New Zealanders on the basis of need not race; that we could no longer justify separate Maori electorates; that we should rid the law of meaningless references to “the principles of the Treaty”; and that we should resolve all historical grievances by 2010.

Nothing that has happened in the past two years makes those points one bit less relevant than they were in January 2004.

The National Party went into the 2005 election with a clear vision of a New Zealand where every person is equal before the law, as outlined at Orewa two years ago.

The fact that that vision is shared by most New Zealanders was confirmed by the readiness of the Labour Government to at least *pretend* to adopt these policies, which they had at first so roundly condemned.

But let me be very clear tonight: on our present course, New Zealand will do little more than tread water in the area of Treaty settlements and race relations. For me, this, the original Orewa message, is very much in the category of unfinished business – business I intend to see dealt with in my time in politics.

One year ago, also here at Orewa, I spoke about the tragic human waste in having 300,000 working-age adults on a benefit, and the need to put in place policies that require able-bodied beneficiaries to be in work or in training.

Some people claimed I was simply trying to save money. Well, yes, any programme which costs the taxpayer \$14 million per day – roughly \$50 per week for every hard-working Kiwi – does need to be looked at carefully, and if we can find ways of reducing the cost to taxpayers we should do so.

But my main motivation was finding ways to free one New Zealander in eight – 300,000 working age adults and their quarter of a million children – from a demoralizing, indeed dehumanizing, dependency of prolonged reliance on taxpayer handouts. I do not accept that we help able-bodied people by letting them help themselves to a benefit indefinitely. We must actively encourage and help people out of dependency.

This time, before the ink was even dry on the speech, Labour Ministers were promising action on these very matters. They resurrected the idea of a universal benefit, with multiple add-ons of course, to achieve even more bureaucracy and waste. This idea was first mooted by Labour in 1989, repeated in 2001, and dusted off again last year. But I wonder whether any of you are able to point to a single meaningful change that has occurred in welfare policy as a result.

More unfinished business.

Eighteen months ago, though not at Orewa, I spoke about the need for improvements in law and order – about the need for more police, about the need to get tough with young lawbreakers to stop them choosing crime as a career, and about the need for more prisons and longer sentences for serious criminals.

This speech, too, drew a response that, miraculously, these very items were high on the Government's agenda. But I haven't noticed, and I venture to suggest nor have many of you, any meaningful changes to the way in which serious crime is being tackled in this country.

We still have too few police; too many of those police are focused on gathering revenue from speeding motorists; too many criminals are getting out of jail after serving only one-third of their sentence; and we still have the ridiculous situation where somebody who takes a weapon to defend a neighbour threatened by intruders ends up with a conviction, while the intruders end up with no conviction and name suppression, as happened in Taranaki late last year.

Much more unfinished business.

Over the last two years, I have given several speeches on the fourth of my five high priority issues, namely education.

I have highlighted the enormous amounts of money spent on the education bureaucracy; the huge amounts wasted at Te Wananga o Aotearoa; the arrogant way in which the Government went about closing many community schools (and would have closed many more had it not been for the sudden surge in the National Party's popularity following my speech to this club two years ago); the number of students emerging from our schools barely able to read and write, or do basic arithmetic; the disgraceful shambles created by the way in which the Government implemented NCEA, problems which continue to this day; and the way in which teachers have been hobbled by a ceaseless and senseless spaghetti of red tape.

And I have spelled out how a National Government would fix these problems, including by providing parents with more choice about which school their children attend, by offering reading and maths vouchers to parents whose children are falling behind, by fixing the problems with NCEA, by enabling good schools to expand, and by giving school boards and principals more freedom from the suffocating Wellington bureaucracy.

This is not just unfinished business. The Government barely recognises the problem.

And of course I have spoken often about how we need to help our economy grow faster and deliver higher incomes; about how we need to reduce tax rates so that people have an incentive to get ahead under their own steam; about how we need to improve our road network, and reform the RMA, so that it is not such an obstacle to investment; about how we need to sort out the problems in the energy sector, and get some balance into employment and holidays legislation.

The pressing need for change has been concealed by very low interest rates internationally – and the associated strong growth in the global economy – by good growing weather down on the farm, and by the boost to the housing market from an influx of people after September 11. Those factors have allowed New Zealand businesses to prosper – but had nothing to do with any policies of the Labour Government.

But now the chickens have come home to roost. Labour's legacy is a faltering economy, and I want to spend a few minutes tonight explaining the twin problems we face.

First, over recent weeks we have seen the start of a sharp down-turn in economic activity, with business confidence falling to the lowest level in more than 30 years and almost every day bringing another example of an export company closing its doors or sharply reducing its staff. A recent survey in the *Christchurch Press* suggested that the South Island was already teetering on the brink of recession.

Even if business confidence recovers somewhat in the near future, there can be little doubt that the economy will grow very much more slowly over the next 12 or 18 months than it has in recent years, that as a result many businesses will face very tough times, and that unemployment will rise steeply.

If business confidence stays around current levels – and this Government is doing nothing that might help avoid that – we are almost certainly headed for a recession.

And unlike the brief recession of 1998, there won't be an Asian crisis or two successive years of drought to blame for it. There is no Asian crisis and, so far at least, not even one year of severe drought, let alone two. The blame for any recession will lie squarely with the Helen Clark Labour Government.

The collapse in business confidence is like the warning light on your petrol tank – ignore it at your peril. Well, it is flashing, and the Government is asleep at the wheel.

Despite being warned last year by the OECD (and no doubt by Treasury and Reserve Bank officials also) that the rapid growth in government spending was putting inflationary pressure on the economy – thereby obliging the Reserve Bank to raise interest rates to try to keep inflation under control – the Government went right on spending like there was no tomorrow. In its 2005 Budget, it announced that government spending would rise more than 40% faster than the economy as a whole over the next few years. And that was before the election campaign commitments were added to the total – the extraordinary student loan bribe, which amounts to a give-away of \$1.5 billion on existing student loans, and a massive expansion of the Working for Families programme.

That extra spending might have sounded good when Michael Cullen and Helen Clark announced it, but they weren't telling people the whole story – that the extra spending would force the Reserve Bank to push interest rates still higher to the point where they are now much higher than in any other developed country – much, much higher. Floating rate mortgages have now risen to almost double figures for the first time in a decade.

In some ways even more serious, the fact that financial markets can see that these interest rates are likely to remain high for some time means that foreign savers can see little risk of a fall in the New Zealand dollar in the near future, despite attempts by the government to bad-mouth the economy to those foreign savers.

So the New Zealand dollar remains at levels that make it impossible for many exporters to break even, let alone make a profit. They are forced to withdraw from foreign markets and lay off staff.

Not content with keeping the exchange rate high through profligate spending, the Government further erodes the competitive position of exporters with almost every policy they announce – complicated and expensive holidays legislation, less flexible employment laws, a less competitive accident insurance market, and red tape galore.

The tragedy is that people will lose their jobs – and their savings, as house, farm and share prices fall – because of the Government’s incompetence.

Painful though this immediate problem will be, there is a second and even more serious problem facing the economy, and indeed facing our society.

And it was illustrated for me by a woman I met 18 months ago at Napier Airport. She told me that she had four adult daughters, and three of them had now moved to Australia. “All my grandchildren”, she told me, “are growing up Australian.” Six months ago she wrote to me and told me that her fourth daughter was also thinking about moving overseas.

Since that chance encounter, I have met many scores of people who have told me that one or more of their adult children have moved overseas. One woman I met on Stewart Island told me that six of her seven children had moved overseas – and she didn’t mean over Foveaux Strait!

Why is this happening? Because, despite the relatively good growth in recent years, our real incomes are continuing to fall behind Australia and other countries that New Zealanders can easily move to.

When Labour took office in 1999, the average after-tax income in Australia (calculated using OECD PPP exchange rate measures, which abstract from the year to year fluctuations that occur in foreign exchange markets) was 20% ahead of that in New Zealand.

It is now 33% ahead, an income gap equivalent to \$200 a week.

If that gap continues to widen, as it certainly will with present policies, the future is bleak and we will continue to lose over 600 New Zealanders across the Tasman every *week*. There is not the *slightest* prospect of New Zealand’s achieving the goal of getting living standards into the top half of the OECD within 10 years, as Labour said was an important goal five years ago.

If sliding down the OECD ranking was of purely statistical interest, perhaps we could ignore it. After all, haven’t we got one of the most beautiful countries in the world? We certainly do, but unless we do something to arrest our slow slide, or indeed reverse it, we will increasingly see our children and grandchildren disappearing as surely as the good people of Hamelin saw their children follow the Pied Piper.

That income gap means people can get better healthcare in other developed countries, better education for their children in other developed countries, and better housing in other developed countries.

A tragic example of what this means is subsidised medicines. When you compare the range we have in New Zealand with the much wider range the Australians can afford to subsidise, it’s enough to make you sick. Suddenly the income gap is no longer economic theory – it’s a matter of life and death.

But wait a minute, I can almost hear you say, hasn’t growth been quite good in recent years, and didn’t you just admit as much?

Well, in the five years to last September, economic growth in New Zealand averaged roughly 3½% annually – not brilliant, given the great prices we enjoyed for meat and dairy exports, but not too bad.

But what is very disturbing is that three-quarters of that growth has come from more people working – lower unemployment, more immigrants, and more adults entering the workforce.

Lower unemployment is a very good thing, of course, and more people entering the workforce and strong net immigration *may* be a good thing. But clearly there are limits to how far we can go in finding more people.

What we *need* to see, if we are going to raise living standards to Australian levels, is faster growth in output per person employed – in productivity. Growth in productivity has accounted for only a quarter of total growth in recent years, and it is markedly lower than growth in productivity in Australia and, on average, in other developed countries.

In the final analysis, significantly increasing the rate at which productivity is growing is absolutely fundamental to closing the gap between incomes in New Zealand and those in Australia.

This does not, of course, mean we need New Zealanders to work harder. Most New Zealanders work pretty hard already! Productivity is much higher in the United States than in New Zealand, and much higher in New Zealand than in India. There is no suggestion that those differences relate to how hard Americans work relative to New Zealanders and Indians. Rather the differences relate to other things – the quality of our education system, the quality of our infrastructure, and how much we have to work with in the way of modern tools and machinery. The challenge is to work smarter and with better technology, not to work harder.

Devastating though the immediate slowdown will be for the people and the companies hit hardest, the real tragedy – the thing which threatens the very existence of a prosperous and relatively egalitarian society in these islands we call New Zealand – is the Government’s total failure to use the golden weather we’ve experienced in recent years to raise productivity growth in New Zealand.

Of course, Helen Clark talks the *language* of productivity growth. She talks of the high priority to be given to what she calls “economic transformation”. But what she means by this is more committees to *discuss* productivity growth, more working parties, more consultations with senior bureaucrats, more government programmes to dole out concessionary loans to the selected few, a “restructuring” of the business tax regime.

What she recoils from are the things that would actually make a difference to productivity growth throughout the economy – many of them set out in black and white by the Government’s own advisers in the Treasury in their post-election briefing document, the advice condescendingly dismissed by Michael Cullen as “an ideological burp”.

For example, reduction in the tax rates which affect behaviour – the high marginal tax rates (over 50% for many low and middle income people) which discourage people from acquiring more skills or taking on more responsibility, and the company tax rate which the Government seems stubbornly committed to holding above the Australian rate.

Or reform of the Resource Management Act, which slows down and increases the cost of almost every investment in the country.

Or construction of a decent road network in the Auckland region, and the Bay of Plenty, and the Waikato, and other parts of the country where the roads themselves are a serious roadblock to growth.

Or fair employment laws that enable businesses to employ people on the terms and conditions that best suit them and their employees.

Or the reform of the welfare system to encourage able-bodied beneficiaries to get back into the workforce.

Or, for the longer term, the reform of the education sector, to ensure that every child coming out of primary school can read and write and do basic arithmetic, and every young person coming out of secondary school has skills that will enable them to become a productive citizen.

The Labour Government has not only failed to tackle these issues, it seems to be totally unaware of their importance.

Labour is out of ideas, trying to get by with nothing more than a grab-bag of shop-worn slogans. Australian tax rates are being moved well below New Zealand rates for most working people, yet Labour has no response. Australia is freeing up its employment laws, while we go in the opposite direction.

We have the unedifying spectacle of a Prime Minister who is supposed to be leading the country, instead frozen like an opossum in the headlights of an oncoming Aussie truck.

She just does not seem to understand how close we are to disaster. With a 20% gap between our after-tax income and that in Australia, we will of course lose some Kiwis to Australia, but many will choose to stay, given our many lifestyle advantages and a desire to be close to family and friends.

But with a gap of 33%, the incentive to leave gets markedly bigger.

And with every prospect of the gap being 40% or more in three years' time, with very slow growth in New Zealand and an aggressive package of tax reductions in Australia, the incentive to leave gets bigger still.

Those who go will be among our most enterprising, and their departure will make it cumulatively easier for others to go, and cumulatively more difficult to close the income gap and arrest the trend.

We could reach a tipping point beyond which it would be extraordinarily difficult to recover.

Of course, we all know that income is not the only thing that motivates people. But what if those who see big economic advantages in moving to Australia are also fed up with the quality of the healthcare they get; fed up with the quality of the schools their children go to; fed up with the way serious criminals can get out on parole after serving just one-third of their sentence – and what if many of their friends have already moved to Australia? What then?

The National Party is optimistic about New Zealand's future, and I personally am optimistic about our future. But nobody can be optimistic about our future if all we can look forward to are the policies of the Labour Government.

So none of the five key policy areas which I identified after becoming leader is any less relevant today than it was then. Indeed, some of the issues have become even more glaringly urgent in recent weeks.

By identifying these problems, National has set the political agenda over the last two years, with Labour playing catch-up.

And not just on big issues such as the Treaty of Waitangi.

- We argued against the flatulence and carbon taxes, which Labour has only recently abandoned.
- We argued that there has been a huge amount of wasteful government spending. The Government initially denied it, but has now set up a “razor gang” to review government spending.

And so it has gone on.

Even in quite low profile areas, National has been setting the agenda, as we saw earlier this month when Labour announced its plan to use a tiny fraction of DOC's vast estate to help preserve the Kiwi camping tradition – a policy I advocated in March last year. It makes sense to use a tiny fraction of our vast conservation estate to ensure that the tradition of the Kiwi camping holiday is not destroyed by surging coastal property values. In this country it should not require wealth or high income to enjoy a summer holiday at the beach.

Looking ahead, we will be devoting particular attention to three more issues.

The first of these is immigration, not least because it is intimately connected to economic policy. Indeed, immigration has been thought of by many people as being relevant *only* to the economy. How do we fill gaps in the workforce? What level of gross immigration is needed to offset the steady outflow of New Zealanders? How do we ensure there are enough people of working age to ensure that older New Zealanders are cared for in their old age?

But just as importantly, how do we do this while retaining the common values that bind us together as a nation? New Zealand is a liberal, tolerant and secular society, a society that embraces the Western Enlightenment ideals of personal liberty, private property and rationality as the basis of decision-making. These are values so central to our society that we hardly even think about them. Immigration can add greatly to our society, but it also has the potential to undermine the glue that holds our society together.

Our current immigration policies have evolved without serious public discussion or debate, and we will be giving careful consideration to this issue through the coming year.

A second issue of great importance for the longer term future of our country is how we provide for the healthcare of New Zealanders, especially when those over the age of 60 will rise from one in six today to almost one in four in 15 years time, and where many life-style illnesses, such as Type II diabetes, are projected to cause massively increased health problems of many kinds.

In the last few years, there has been an enormous explosion in government spending on health, to the point where even the Minister of Finance has made it clear that the rate of increase is unsustainable.

And the Treasury has slammed the inefficiency of much of the spending.

There is, in fact, precious little to show for the enormous increase in money spent, with appallingly long waiting lists and people dying while waiting for an operation, with hospital emergency departments not meeting the Government's own standards for seeing patients in a timely manner, and with hospices and aged-care facilities under desperate financial pressure.

Health has been one of Labour's most striking failures, disguised only by the vast increase in funding. The tragedy is that so little has been achieved with that funding.

Labour has allowed a vast and expensive bureaucracy to grow up, with far too many managers and administrators relative to "front-line staff"; they have so far taken a cruelly restrictive attitude towards the availability of such wonder drugs as herceptin, a drug which has almost miraculous powers to treat certain kinds of breast cancer and which could be made available for a small fraction of the money squandered last year at Te Wananga o Aotearoa; they have refused to require any improvements in productivity in the hospital sector in return for very large increases in taxpayer funding; and, for reasons which reflect nothing more than pure ideology, they would rather let people die than use privately-owned hospitals to shorten long waiting lists.

Nobody should pretend that making government health spending efficient and effective is easy. But I have no doubt that National could do a much better job than Labour has done with the torrent of extra money that has been pumped into the sector in recent years.

For the sake of our future, we *need* to do much better.

The final issue which I want to signal that we will be developing further this term is the tension between our desperate need for better infrastructure and for sustained economic growth on the one hand and the need to preserve our outstanding natural environment on the other.

We have great challenges ahead in maintaining a first-world roading system, and with ensuring reliable low-cost energy supplies. We need to reform the RMA so that developments are not unnecessarily delayed, so that business investment can expand, and so that the fundamentals that underpin faster productivity growth and higher incomes can be put in place.

But this must be achieved while ensuring that our natural environment is not sacrificed for the sake of a temporary boost in incomes.

We must be concerned about polluted air and water, about the erosion of our East Coast hill country, and about the threat of extinction facing much of our fauna and flora.

Achieving a balance here is essential, and we will be working to develop policies that make that clear.

Ultimately, though, it is very clear that wealthy societies are better able to care for their environment than poor ones are. With well-designed economic and environmental policies we can have faster growth *and* better protection for our natural environment.

Ladies and gentlemen, over the next year, we will hold the Labour/New Zealand First Government to account, and expose arrogance, incompetence and corruption wherever it exists.

But we also commit to *supporting* the Government where it is willing to adopt sensible policies in line with our own values and principles.

Following the election last September, National now has the strongest Opposition caucus in terms of numbers, ability, and experience in New Zealand history. We have the people needed to develop and implement our policies.

We also have a clear vision of where we want to go, what kind of country we want New Zealand to be, and – most importantly – what sort of policies will get us there.

We want New Zealand to be a country where people are encouraged to take responsibility for themselves, but where those who, through no fault of their own, have stumbled upon hard times, are supported through those times and actively encouraged to again have the dignity of self-reliance.

We want New Zealand to be a country where government seeks to expand the choices our citizens have, not close them down.

We want New Zealand to be a country where there is a business environment that attracts the investment that will boost productivity and incomes in New Zealand, so that Kiwis enjoy living standards every bit the equal of those in other highly developed countries.

We want New Zealand to be a country where we ensure that every child has access to a first class education by providing parents with alternatives if their child's future is at risk.

We want New Zealand to be a country where everybody has access to good quality healthcare because we are getting value for money in healthcare spending.

We want New Zealand to be a country where people respect the rights of others, and are kept safe from those who would abuse those rights.

And we want New Zealand to be a country where people have equal rights under the law, regardless of race.

No politician should presume to be able to describe the future structure of our economy, but with the right policies we can see New Zealand becoming, within a decade, a dynamic country with competitive strengths in food and fibre production and marketing, high quality manufacturing, industrial design, science, tourism and creative arts, with new strengths in areas not yet imagined.

Ours should be – must be – a country with cities that can compete for talent with Sydney and Melbourne, a country with a competitive financial environment and first-class infrastructure, all matched with the unbeatable Kiwi lifestyle and environment.

And we must be a country where, in spite of the diversity of our community, we share sufficient common values to bind us together as a nation.

This would be a country our children and grandchildren would *want* to return to.

So we have the people, the experience, and the vision.

For me personally, the year ahead is looking hugely exciting. Some commentators have asked whether or not I will be the Leader of the Opposition for the next three years. I certainly hope not!

I didn't leave a very satisfying job as Governor of the Reserve Bank almost four years ago to be Leader of the Opposition. I left that job because I was convinced then that there needed to be some important policy changes in New Zealand if we were to have the kind of country we want for ourselves and our children – particularly in economic policy, in welfare, in education, in law and order, and in race relations.

I am even more convinced of that today. My goal is to be Prime Minister of a National-led Government within the next three-year period to *achieve* those changes, for the benefit of all New Zealanders.

Ends