

Hon Bill English

Minister of Finance



**Speech to the Trans-Tasman Business
Circle**

Te Marae Room, Te Papa, Wellington

Embargoed until 12.30pm

Wednesday, 10 July, 2013

Good afternoon. It's a pleasure to be here with you today.

Since I last spoke to the Trans-Tasman Business Circle, New Zealand has made considerable progress in a world still facing many economic challenges.

It has not been easy. And there is still plenty to do.

Many households and businesses are still finding the environment quite challenging.

Events around the world continue to buffet New Zealand in the aftermath of the Global Financial Crisis – whether it's through the exchange rate, fluctuating growth among our trading partners, or the outlook for commodity prices.

So we must focus on the issues we can influence, rather than worrying about those things outside of our control.

The good news is that we are making progress.

Our economy is growing. We are on track for 2 to 3 per cent annual growth over the next few years.

Wages are increasing. Net household disposable income is around 20 per cent higher now than it was four years ago.

Interest rates are around 50-year lows and the cost of living is well under control.

There are more than 50,000 more jobs in the economy than two years ago and, although unemployment is coming down, it remains too high.

Business and consumer confidence are improving, as New Zealand companies become more competitive. Exports are growing.

New Zealanders are beginning to grapple with their high debt levels and saving a bit more.

And the Government is on track to the surpluses that will enable it to stop borrowing more and start paying off debt.

We are seeing momentum building towards a stronger, more stable, economy that can again weather global storms and deliver higher incomes and more jobs.

The Government has clearly set out its economic programme to support and accelerate that progress.

Under the leadership of John Key, our approach has been clear and predictable.

We have told New Zealanders what we would do.

We have campaigned successfully on our programme over two elections.

And we have taken New Zealanders with us by making consistent and moderate change, year after year, as we have promised.

In the shorter term, we have worked to protect New Zealanders from the sharpest edges of recession, and the people of Christchurch from the unavoidable effects of devastating earthquakes.

We have incurred significant extra debt by spending in excess of our revenue to protect the most vulnerable families, to maintain living standards and to support the renewal of our second largest city.

At the same time, we have set out on a longer-term path to repair the damage to our economy from a decade of excessive borrowing, consumption and government spending.

And we are rebuilding the economy's capacity to deliver more jobs and higher incomes over the next decade.

So the Government is in the midst of a comprehensive programme to give businesses and families the confidence to invest in our shared future, despite global economic uncertainty.

There really is only one way we can do that.

We need to shift resources away from debt-funded consumption and housing investment, and towards more savings and investment in export-intensive sectors.

New Zealanders have a good understanding of the challenges faced by the wider economy.

They are the same challenges faced by every household and business in the country - to become financially sustainable and resilient.

We all understand there is no economic wave coming to pick us up. So, as I've said before, we have to get paddling ourselves.

Over our five Budgets, the Government has built up a good deal of momentum in important areas that are helping the economy to grow.

Many other countries are still struggling with too much debt, little or no growth, or a combination of both.

I've recently returned from 10 days in Europe and the United Kingdom, meeting political, business and investment leaders.

I was reminded of the significant, long-term, challenges still facing countries in that part of the world.

They have had to bail out their banks, they have huge government debt and they are struggling to find reliable sources of economic growth.

We do not have those challenges here in New Zealand.

By comparison, we're doing relatively well. A number of recent indicators confirm the economy is on the right track and the future is looking brighter.

The Government's programme

The Government has set four main priorities for this term of Parliament:

- Responsibly managing the Government's finances, so New Zealanders' taxes are spent wisely on the services they need.
- Building a more competitive and productive economy to create more jobs, raise incomes and build opportunities here in New Zealand.
- Delivering better public services for families, such as schools, hospitals and keeping communities safe.
- And rebuilding Christchurch so Canterbury families can get their lives back on track.

The Government's view of how to grow the economy is pretty straightforward.

Real growth doesn't happen until one more business like yours invests another dollar, sells another product or service, or hires another person.

After New Zealand lost competitiveness in the mid-2000s, this Government has taken action on a number of fronts to help attract investment and support business growth and jobs.

As we've said, there is no one thing that can achieve this. Instead we must do hundreds of things well, year after year.

We have pulled all of them together in the Business Growth Agenda work programme.

We have issued progress reports detailing a large number of initiatives across six areas that are important for business growth:

- Export markets
- Innovation
- Skills and safe workplaces
- Infrastructure
- Natural resources
- And capital markets

They were the result of ministers working closely with businesses, local government and unions to focus on the ingredients that help businesses to invest, grow and create more jobs.

If you haven't already done so, I encourage you to read these reports and provide us with constructive feedback and other good ideas.

A better performing public sector

At the same time, we are also improving the performance of the government sector, which makes up around a quarter of the real economy.

In the Budget, we set out the track for improving government finances and returning to surplus by 2014/15. This is underpinned by a growing economy and a better performing public sector.

And we confirmed decisions to reach our second fiscal target of reducing net core Crown debt to no more than 20 per cent of GDP by 2020/21.

That's important because we need to build a buffer to deal with the next financial crisis or natural disaster when it comes along.

The Government's net debt is forecast to peak at 28.7 per cent of GDP in 2014/15, before falling.

So it will be quite a challenge to run sufficient surpluses to get that debt down below 20 per cent of GDP.

At the same time as getting our finances in order, the Government has focused on improving the public services we provide to New Zealanders.

We are finding that what's good for communities in terms of better services and better results is also good for the Government's books.

Earlier this week, we released the first annual update report on the Better Public Services programme.

This includes 10 results areas dealing with some of New Zealand's most challenging issues such as reducing long-term welfare dependence, reducing crime and improving educational achievement.

There are a number of indicators confirming we are making progress.

The crime rate is the lowest in 30 years.

New Zealanders will receive 35,000 more elective operations this year, compared to 2007/08.

93 per cent of eight-month olds are now fully immunised.

And more than 215,000 homes have been insulated under this Government.

All of these things are possible because we have a stronger economy and a focus on ensuring that taxpayers' hard-earned PAYE is spent wisely and on programmes that deliver results.

Another area of particular focus for the Government has been the fairness of the tax and income support systems.

Supporting families in need

Despite the recession, government policies have helped to reduce income inequality at the margin.

We believe families in genuine need should receive the support they deserve.

But, at the same time, we also expect people to work when they are able. The Government is supporting them to do that by investing significantly – around \$470 million over the last two Budgets - in welfare reforms.

The Better Public Services update confirmed the number of people receiving working-age benefits for more than 12 months – those who are harder to get into work and headed for long-term welfare dependency - fell by almost 3,000 in the latest year to 31 March.

And over the first quarter of this year, the total number of people receiving a benefit fell by nearly 30,000.

In addition, over successive Budgets, the Government has made a number of changes to make the tax system fairer and to encourage more New Zealanders into work.

They include:

- Removing the ability for people to shelter income in trusts.
- Raising the effective tax rate on property investment.
- Increasing funding for Inland Revenue to target property speculators and others avoiding tax.
- Preventing people using investment losses, including from rental properties, to make themselves eligible for Working for Families and other government support.
- And bringing in stricter rules to ensure multi-national companies contribute their fair share of tax in New Zealand.

At the same time, the Government has reduced income tax rates across the board and better targeted support programmes such as Working for Families.

The tax package in the Budget in 2010 reduced tax on work and savings, and at the same time increased taxes on consumption and property speculation.

In other words, we reduced taxes on things we want more of. And we increased taxes on things we want less of.

The result in 2010 was that after-tax incomes at all levels of taxable income were immediately increased by more than the increase in GST.

So someone on the average wage of around \$50,000 was immediately \$15 a week better off as a result of the tax changes.

And a family with two children on the average household income of \$76,000 was about \$25 a week better off.

These changes also made the tax system fairer.

Two-thirds of the cost of the income tax cuts in 2010 went into reducing the bottom two tax rates.

So almost three quarters of taxpayers – those earning up to \$48,000 a year – now have a top tax rate of 17.5 per cent or less.

In making these changes, the Government was also mindful of the need to ensure the tax system interacted effectively with the considerable Government income support provided to low and middle-income families.

Linking the tax system with government support

In particular, we have maintained a redistributive tax and income support system to support those New Zealanders through times of need.

Therefore, at any particular time, a large number of households effectively don't pay any tax.

That's because the amount they pay in income tax is exceeded by the amount they receive from welfare benefits, Working for Families, paid parental leave and accommodation subsidies.

That's entirely appropriate for those families genuinely in need.

But we also require people to get back to work when they can, and we've stepped up efforts to require them to do that.

It will probably surprise many of you just how significantly the income tax system and government support programmes currently redistribute incomes from some groups of households to others.

Using data from the Household Economic Survey, the Treasury estimates that in the current tax year ending 31 March 2014, households earning over \$150,000 a year – that's the top 12 per cent of households by income – will pay 46 per cent of income tax.

But when benefit payments, Working for Families, paid parental leave and accommodation support is taken into account, these households are expected to pay 76 per cent of the net income tax.

And that is before New Zealand Superannuation payments are added into the equation.

So we have the top 12 per cent of households by income paying 76 per cent of net income tax.

At the same time, households earning under \$60,000 a year - which is around half of all households – are expected to pay 11 per cent of income tax.

But when we take account of the income support payments I've mentioned, as a group those households will pay no net income tax at all.

That's because the \$2.7 billion of income tax they are expected to pay this year will be more than offset by the \$8.1 billion they will receive in income support.

Estimates of net income tax paid by household income, before and after Budget 2010, indicate the system has become more progressive over this period.

Households earning less than \$60,000 are generally expected to pay less, in percentage terms, towards net tax in 2013/14 than they were paying in 2008/09.

Conversely, households earning more than \$150,000 are generally paying more of the net tax than they were in 2008/09.

As I've said, it's entirely appropriate to maintain a tax and income support system that helps low and middle-income households when they most need it.

These figures are a timely reminder to those who call for even greater transfers to lower income families, or who call for the top personal tax rate to be raised, just how redistributive the system already is.

Other policies improving equality

Other Government policies, particularly in education, housing and welfare, will further reinforce paths for New Zealanders to more equal opportunities.

One purpose of a publicly-funded education system is to use education to overcome the inequalities of birth.

Every New Zealand child has the right to a competent education that enables them to take opportunities their parents may not have enjoyed.

While our system undoubtedly delivers this for most New Zealand children, it does not meet the promise to all children.

The Government is focusing on ensuring that every teacher put in front of our children is competent.

It is also focused on helping that teacher measure progress in the achievement of each child through National Standards.

We do not accept the view that some children cannot learn because of their family circumstances.

Schools are obliged to do everything they can to overcome such disadvantage, and the Government is obliged to support them.

When a child leaves school with the basic competencies of citizenship and work, they have a better than even chance of overcoming inequality.

The Government is also addressing inequities caused by the effect of planning rules in the housing market.

Compact cities can drive up house prices - both by restricting the spread of cities and setting expensive standards for urban design inside cities.

Both measures make housing more expensive. This favours existing owners of houses and can lock young and low-income families out of house ownership.

The same price rises that make home owners better off also increase inequality. By any international standard, housing in New Zealand is expensive relative to income.

Therefore, anyone concerned with unequal wealth should support more flexible supply of new housing.

Welfare and social housing reforms will also improve equality.

In the past, the welfare system has been passive and complacent, and social housing policies have been wasteful and short-sighted.

These two systems together have locked thousands of people into long-term and persistent low incomes, sapping their capacity and eroding the hope they may one day participate in society through work.

By providing more pathways to work, and more targeted support for government agencies working with other social and business organisations, we are beginning to reduce the number of people locked out of work.

The Government's welfare and housing reforms have broad support in the social sector because they will have a positive impact on equality.

Political parties that talk most about inequality are opposed to these policy changes, with no effective proposals of their own.

Conclusion

So just to summarise: The National-led Government has set out a clear programme and we are delivering on it.

We're focused and taking action across the many areas needed to boost growth, investment, jobs and incomes.

We have done that while ensuring that families most in need are protected and supported.

We are making good progress.

New Zealand's path of economic growth, jobs and fiscal surpluses are the envy of other countries still struggling with no growth, rising debt or both.

Our challenge is not so much a lack of opportunities.

Our challenge is to assemble the people and the capital needed to exploit the many opportunities that already exist.

Providing we stick to our plan, I'm confident that we will grasp those opportunities and build the brighter future New Zealanders and their families deserve.

Thank you.