

# 2009 Job Summit

John Whitehead, Secretary to the Treasury

Auckland

**27 February 2009**

Thanks Alan.

Given that picture I'd like you to think about what our objective is, not just for the day but for New Zealand long-term. I'd suggest:

- We want to get out of recession as quickly as possible.
- We want the impact on people to be limited.
- We want New Zealand to be better off and well placed to take advantage of world recovery.

# Objectives

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- To get out of recession as quickly as possible
- To limit the impact on people
- For New Zealand to be better off long-term and well placed to take advantage of world recovery

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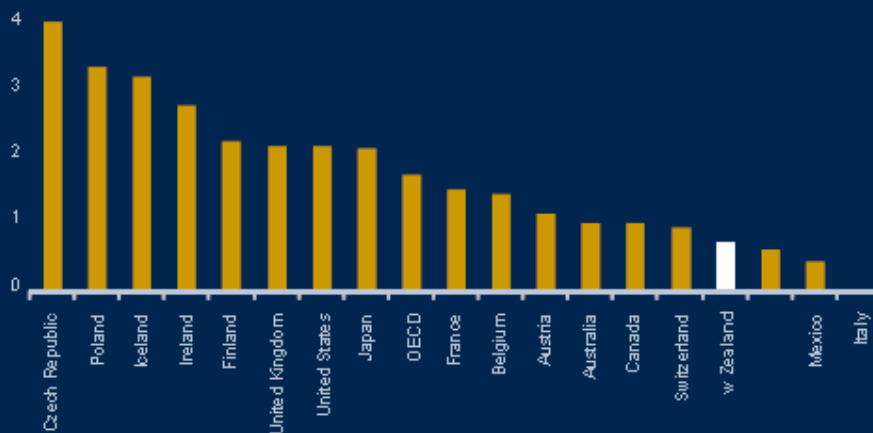
That long-term view is critical and it reinforces the need to focus on jobs.

I don't want to minimise the challenges our economy currently faces. But in an environment of recession and substantial structural change in the global economy, the worst thing we could do is to try to protect our current situation and kill off our chances of coming out in the best possible position for the future.

So we cannot and do not want to prevent some change. We want to ensure that the right sorts of changes occur to improve New Zealand's productivity, growth, employment and incomes.

# Productivity growth

Growth in GDP per capita 2001-2006



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Both short and long term, productivity is the big economic issue. A large proportion of New Zealand's recent economic growth has been driven by more people in work. This has had real social as well as economic benefits - we entered this recession with very low unemployment. But for sustainable long-run growth in incomes and employment we need improved productivity growth.

In 2006 New Zealand's level of labour productivity ranked 22nd out of 30 in the OECD - which means that an hour of work generates 30% less income in New Zealand than it does in Australia. It's no surprise then that the average wage in Australia is about a third higher. If we want good jobs and higher incomes we have to keep a focus on productivity.

So what do we need to do now to increase productivity and create quality jobs? I should stress that by "we" I mean all of us.

It is the decisions of firms and individuals that drive productivity and your ideas, investment and innovation will ultimately determine how quickly and how well we adapt and progress.

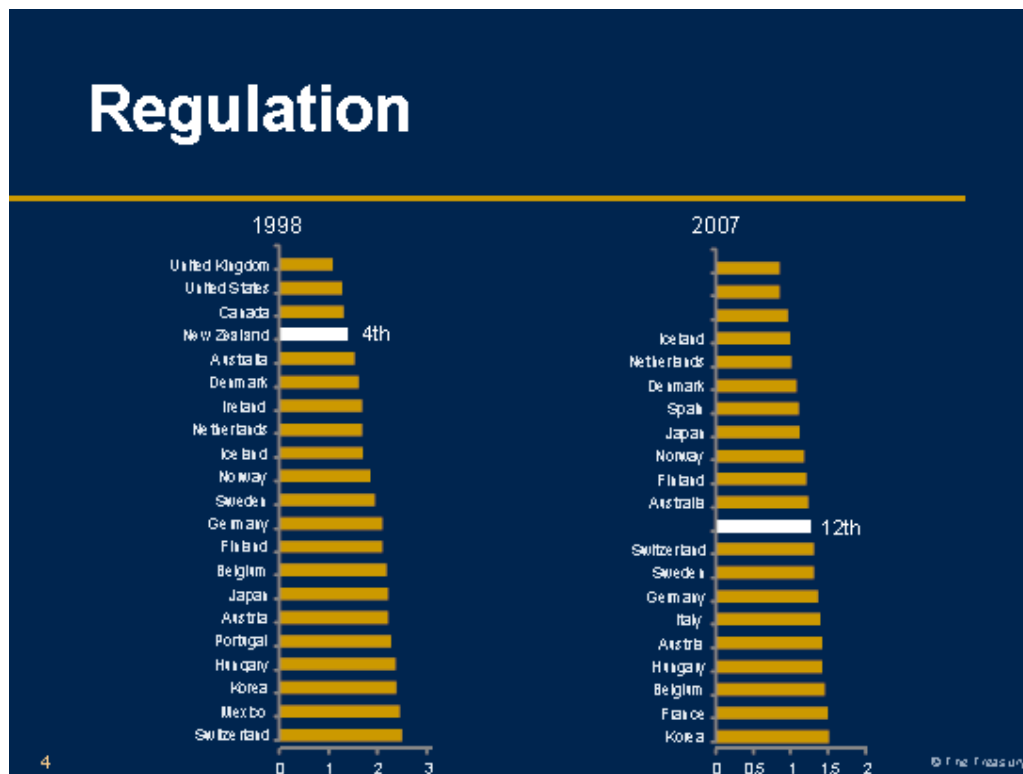
The role of government is to provide the environment for that to occur.

At present that requires a focus around three broad areas: investment, regulation and skills.

Practically, there has to be enough credit available so that new investments can be made to build businesses and create jobs. At another level, businesses need to be confident to look for opportunities and investments.

At both levels there has been a policy and systemic response: there have been interest and exchange rate adjustments; a significant fiscal stimulus is in place; and so too are funding guarantee schemes to provide access to capital.

The public sector investment being undertaken also has a role in stimulating short-term activity and building infrastructure for future growth.



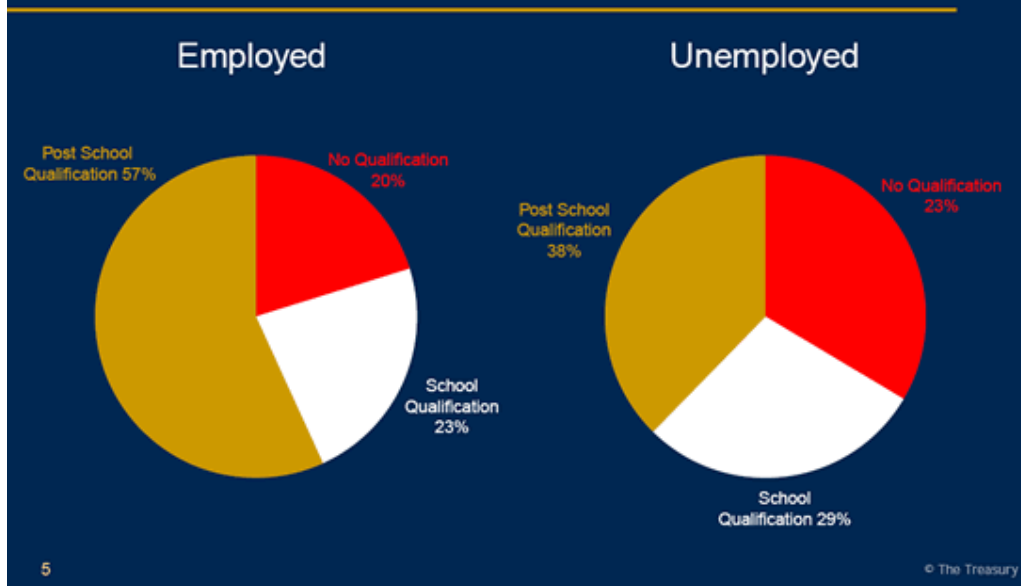
The second area is regulation. The sure way to kill innovation, investment and change is to have rules or laws that discourage or prevent it.

We've seen nearly 30,000 new pages of primary legislation over the last decade and a slip in our competitiveness as this slide shows.

So we need quality assurance on the flow of new regulation, and to make sure existing rules are fit for purpose by evaluating priorities and objectives - for example the balance between broad participation and speed and certainty for investors with the RMA.

The bottom line is our productivity challenge, the 30% gap with Australia, means we don't just need to do well. We need world-leading tax settings, regulations, and institutions to support our ideas and skills.

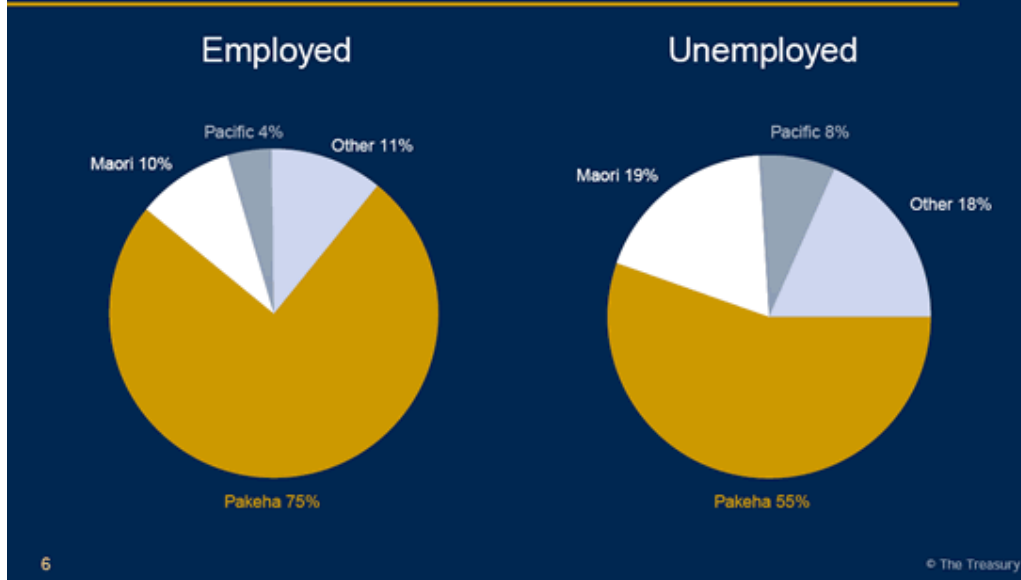
# Workforce - Education



Over the last few years the main constraint on business hasn't been constrained markets or capital - it's been skills and labour shortages. Once we start emerging from the global crisis - and we will - this story will be reinforced with a vengeance.

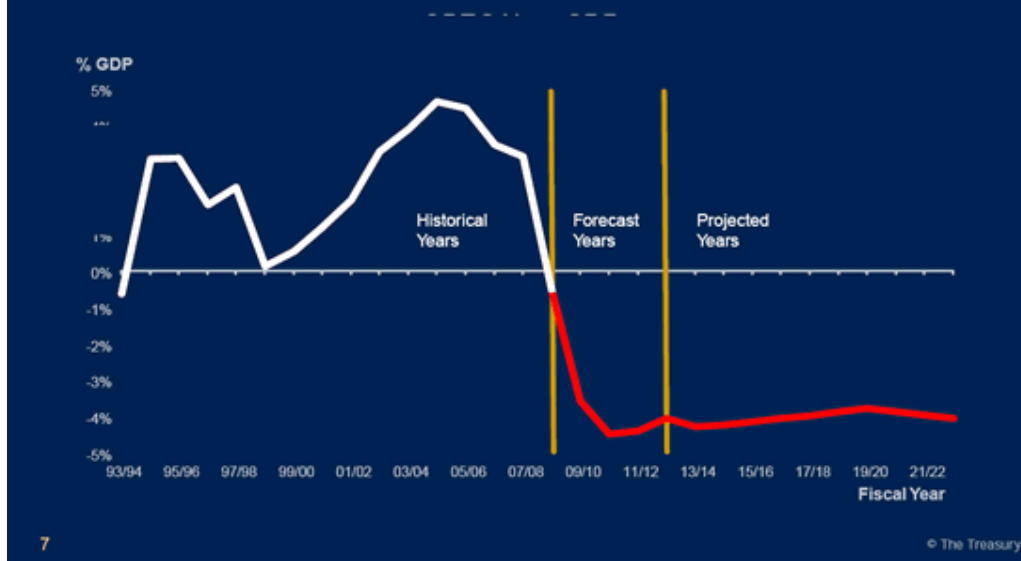
While rising unemployment means an immediate challenge for those needing new jobs or trying to enter work, we have an opportunity to provide people the education, training and assistance that helps them and raises skill and education levels. In my view investing in these areas may have the best pay-off and there is scope for more flexibility for government and the private sector to work together around this.

# Workforce - Ethnicity



And we have to remember who the people affected are - they will disproportionately be the young, the lower-skilled, and Maori and Pacific people. This will help us think about what might work and in some cases where, as in particular regions, we may need to focus.

# Operating Balance

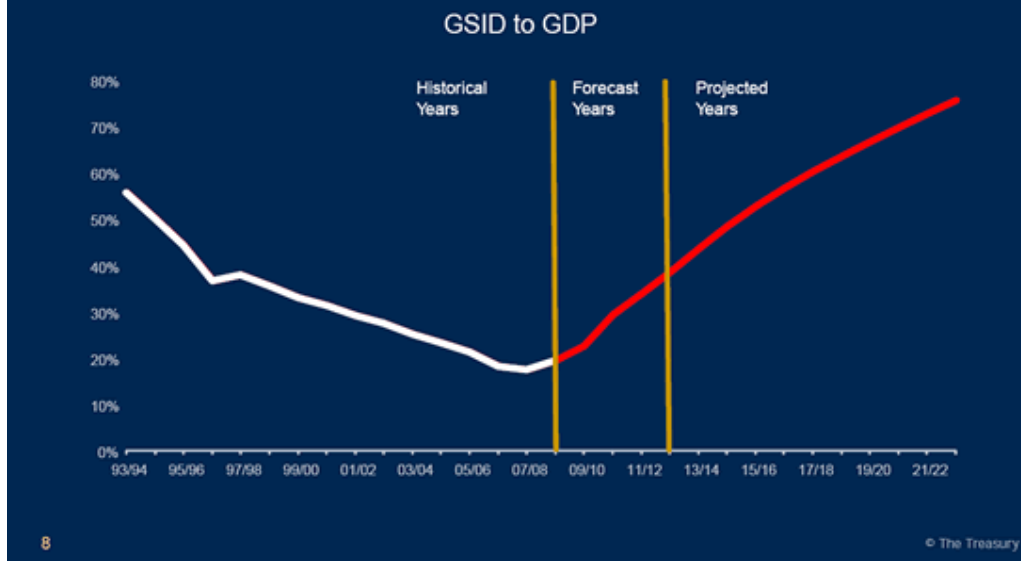


A long-term view must also be applied to government spending.

This is how we're used to the government's books looking. This is what is happening, the "downside scenario" in our December forecasts. Those deficits shown are about \$8 billion every year and it's no secret that international conditions have deteriorated further and that this is flowing in to the government's accounts.

These projections keep the same spending track as present. They illustrate not simply a shock but a structural deficit. This highlights the need to reduce spending and extract much better value out of the \$60 billion of core government spending.

# Debt

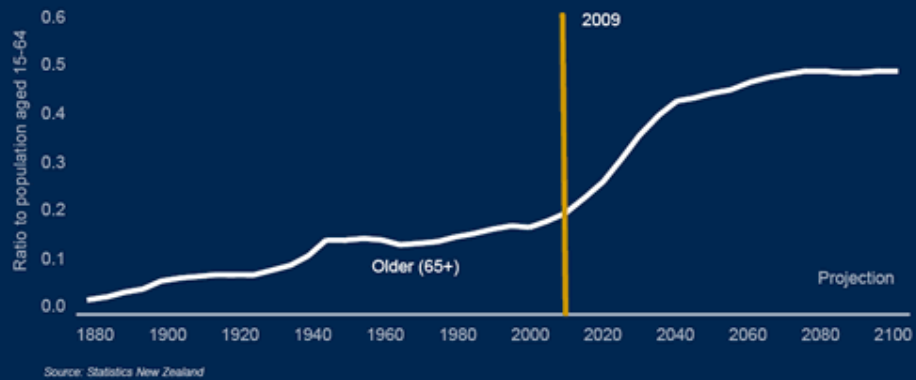


And this is what that means for debt. We are currently at historically low levels of debt. No-one will want our debt to return to these projected levels - close to 80% of GDP in 14 years time.

Debt like that is a credit rating risk, will make the cost of investment and lending higher for firms and households and represents a major financial burden. Over the next five years the cost of debt servicing will nearly double to \$4.6 billion.

# Demographics

Ratio of those aged 65+ to 15-64

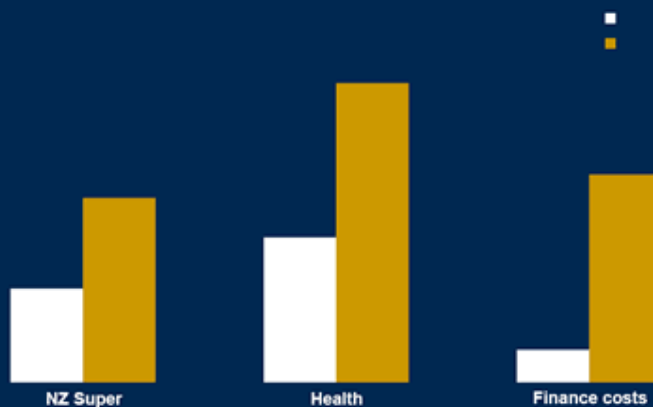


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And demographics make those projections of deficits and debt worse. There are going to be fewer people of working age - even though we're stretching what we mean by working age. So spending now is going to put a greater burden on fewer people later.

## Spending changes – 2008 to 2050



Source: New Zealand long-term fiscal model

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That ageing population, us, also presents its fiscal challenges. It means superannuation and health spending as a percentage of the economy will double in 40 years. Finance costs will grow even more - and these projections were made before the recession began.

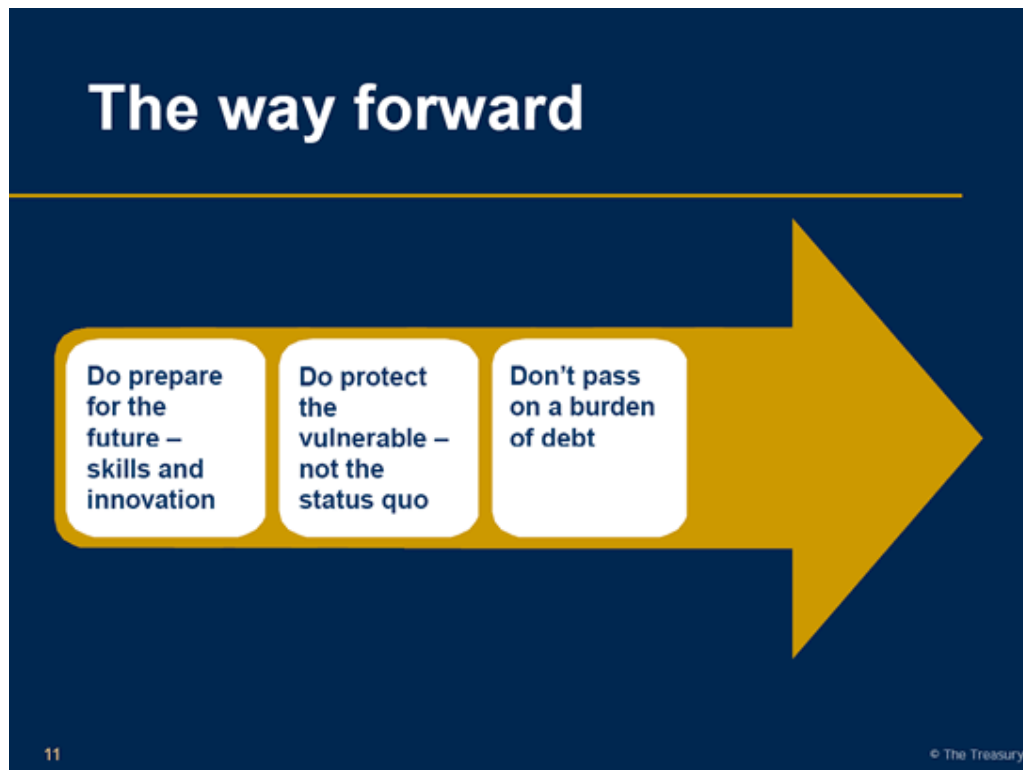
All that means that while some fiscal stimulus has been warranted and is sensible, we're deluding ourselves if we think we can simply spend our way out of our troubles.

This Summit is about working together to find new ideas and practical answers.

We want to ride out this recession in the best way we can: protect the vulnerable; maintain and enhance our skill base; and come out better placed to seize the real opportunities that lie ahead.

In my view the way to do that - the do's and don'ts are:

- Do prepare for the future - with better skills and innovation
- Do protect the vulnerable; not the status quo
- Don't pass on a huge debt burden to the next generation



As you go to your work session think about this: New Zealand can be the country that says - we learned from the recession; we changed; we did better.

Thank you.

