

# Higher Incomes

The Prime Minister's Statement to Parliament

AS PROPOSED BY THE NEW ZEALAND LABOUR PARTY

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It's my privilege to present this annual statement to Parliament setting out the government's priorities for the year ahead.

Last year, National took office with the support and cooperation of the Act Party and the Maori Party in agreements that set out to be close and mana-enhancing relationships.

I congratulate both parties on hanging in there, and giving their support to the government - from wherever their members and their partners happen to be at any particular time.

We have governed through our first year against a backdrop of a tough global economy, in which every country faced testing times.

The Government declared in the Speech from the Throne in December 2008, that economic growth in 2009 was forecast to be low. It turned out to be worse than that - the economy didn't grow at all.

Some of our major trading partners, China and Australia, took bold and convincing steps to confront the oncoming economic tests - and they never went into recession.

Fortunately, the rest of the world's largest economies are already on the road to recovery from the global financial crisis too.

Because our trading partners are growing stronger, today, the outlook for New Zealand is much better.

New Zealand will benefit from international economic recovery come this year, with the IMF projecting world economic growth of 3.9 per cent.

At the start of the Government's term in office, we announced our driving goal was to grow the New Zealand economy.

Today it's clear we need to widen our goal. As the recovery unfolds, it is essential that the gains are enjoyed by the people who were called upon to make the greatest sacrifice in the tough times.

The families whose budgets were stretched as prices rose while their incomes were frozen, or fell.

The working people who lost their jobs or had their hours cut through no fault of their own.

Neighbourhood businesses whose profits were eroded or wiped out as customers stopped buying.

They have to be the priority for the Government this year.

National is ambitious for New Zealand. Really, we are.

And today the Government is setting out its agenda for achieving our ambitious goals. Today we are starting to implement our economic policy, driven by the fierce urgency of now.

Because it will be our priority this year to deliver growth and real gains for hardworking New Zealanders and kiwi families, we can't afford to sit on the sidelines any longer.

There are five broad areas of change needed to deliver higher incomes for New Zealanders, and stronger, more prosperous businesses.

- **First, wages have to go up.** Middle and low income earners who work hard don't have enough left over at the end of the week.
- **Second, New Zealand needs to create more jobs.** Good jobs, paying good incomes, are the surest way to increase incomes.
- **Third, the tax system has to be made fairer.** We ask too much of people who work hard. We ask too little of those who don't contribute their fair share.
- **Fourth, we need to increase productivity.** The only way to create more more productive industry is through innovation and skills. New Zealand can command a place in the first rank of nations by creating more high-value products and selling them to the world and by better equipping New Zealanders for the twenty-first century.
- **Fifth, our productive industries need a financial environment that's conducive to growth.** Therefore we will reform monetary policy.

Our goal will be to reduce interest rate and exchange rate volatility and better tune monetary policy to achieve a strong, growing economy that delivers higher incomes over the long haul.

So here are the government's new priorities for higher incomes: Better wages, more jobs, fair tax, increased productivity and more prosperous business.

We will make sure the benefits of growth are enjoyed by hardworking New Zealanders and kiwi families.

Families who are working hard are struggling to have something left over at the end of the week.

Hardworking New Zealanders are entitled to feel confident about the future.

There is room in our country for everyone to look forward to rising incomes and security in the services we all need.

Looking back, New Zealand went into the global financial meltdown with strong government books. As we took office, the Government's debt was very low - around half the level the previous government inherited. Unemployment was the lowest since household labour force surveys began in the nineteen eighties.

If we had moved faster and more strongly, we might have got through the year as Australia did.

But now the whole developed world is out of recession, Parliament's agenda this year will be jam-packed with bold, active policies to make sure opportunities are there for people who are prepared to do the work.

Mr Speaker, the Government's agenda this year will begin with higher incomes.

## *INCREASING WAGES*

New Zealand has a substantial wage gap with Australia.

The gap opened up for decades.

It stopped widening over the last ten years - but I want us to do more.

I want us to close the wage gap with Australia.

As Dr Bollard noted this week, we haven't yet kept the promise I made to New Zealanders in 2008 that we would increase New Zealanders' incomes to those of Australia.

I made a mistake when I shot the messenger instead of listening to his advice.

We have commissioned Taskforces, to look at change, but they have come up against some awkward facts: Australia has higher marginal tax rates than New Zealand, a much higher gap between the company tax rate and the top personal income tax rate and much less flexible employment laws.

So we can't close the wage gap by cutting tax for the wealthiest, or cutting protections for working people.

No, the fastest way to close the wage gap with Australia is to boost wages.

An increase in the lowest wages is felt further up by those paid above the minimum wage. So the incomes of those who need help the most get increased by the most in percentage terms.

That's why the Government is today increasing the minimum wage to \$13.75; and to \$15 an hour from next April.

We cannot allow the gap between rich and poor to widen.

Evidence I've seen shows clearly that our previous plan to increase the minimum wage by only 25 cents was not enough to cover increases in the cost of living. Not enough to pay for a packet of Weetbix for the family.

Families need extra income for those on the lowest pay to help meet the cost of rising rent, power and grocery bills.

The Government believes that people who do an honest days work deserve a fair wage for their job. And therefore I am today announcing the Government will strengthen workplace protections.

It's a priority to introduce fair redundancy rules so that those whose jobs disappear have something when their livelihood goes.

Working people need good incomes and security for their families, and opportunity for the next generation to break through.

When wages rise, demand for goods is stimulated because people spend more. They save more too, which helps to deepen our capital supply.

That's why, when we turn our attention back across the Tasman, no relationship has ever been shown between employment levels and the minimum wage - according to a comprehensive literature survey by Professor John Quiggan.

This finding confounds commentators. For the Government, the finding gives comfort: increasing

incomes is a good way to...increase incomes.

We will also move promptly to help people on benefits to take up work.

Families who need to make ends meet need the opportunity to take up work with out being penalised for it.

From 1 April, the Government will introduce changes to benefit abatement rates so that New Zealanders on a benefit can take on more part-time work before their benefit is reduced.

Under current rules, a person can earn up to \$80 a week before their benefit is abated.

We will lift that threshold on 1 April to \$100 a week, and look to raise it further - to \$130 next year.

As many as fifty thousand homes will be able to increase their incomes by working.

For most New Zealanders on the lowest incomes, the best way to increase their income is to provide jobs.

### *JOBS, JOBS, JOBS*

Over two days in January, three and half thousand people queued up outside a supermarket in South Auckland for 150 jobs at a new Countdown supermarket.

The patience and determination of the job seekers is ample evidence that New Zealanders want to work.

My government has a responsibility to ensure the opportunities are there for those who make the effort.

To those who bore the brunt of a tough year, I accept I shouldn't have said last year that 150,000 New Zealanders losing their jobs was a 'pretty good result.'

I apologise to them.

I apologise for saying just before Christmas that, 'My message to New Zealanders is I think they can feel a bit more confident as they go into Christmas that their jobs will be retained.'

Since I said that, 18,000 more New Zealanders have joined the dole queue.

In figures released last week, unemployment rose to its highest level in sixteen years.

168,000 Kiwis are now unemployed. The total number of jobless is more than 275,000.

The number of hours worked has fallen as well for those who have jobs, which shows unemployment is not only rising because more people are joining the workforce. It's rising because jobs are being lost.

So I say sorry on behalf of the government to those who lost their job, or had their hours cut, or their pay frozen in the last year.

It's almost exactly a year since we held our Jobs Summit.

It didn't even produce enough jobs for everyone who queued outside the Countdown supermarket.

Even its crowning achievement, the cycle lane, has stalled.

We have lost a year of reform.

Consequently, jobs have been lost that might have been saved.

Opportunities have been lost when they might have been taken.

Hours have been cut when we needed more work, not less.

Today, the Government is setting out a strong program of active government investment in infrastructure projects to stimulate jobs.

Remember the decade of deficits? It looks like we exaggerated that.

Today, they are already down to six years, and we think they will come down further.

That therefore gives us scope to be active in bringing forward infrastructure improvements without risking higher deficits than we were projecting last year.

Active government will put us on the path to a faster, stronger recovery, and make New Zealand a better place to live when the worst is behind us.

Our active stimulus package will create more jobs, and demand will help to push wages up.

When the Government invests to stimulate demand, each dollar it pays to complete new projects is in turn spent again in the community - creating yet more demand.

This is known as the multiplier effect.

It's why the government's economic issues are different to those of households.

If your household gets into debt, you need to cut spending and earn more.

If a country gets into debt, cutting government spending makes the economy worse by withdrawing demand when it is needed most.

The Government has a powerful weapon to ensure the economy doesn't languish.

We need to use it.

And as jobs are created, the government's books get better, too, because demand for welfare assistance falls, and working people contribute tax revenue.

### *FAIRER TAX SYSTEM*

Unfortunately for working people, too much of the tax burden falls on their shoulders, and on the productive sector, instead of being allocated to those able to contribute more.

Too many people on good incomes avoid and evade paying taxes.

Some top earners pay a lower percentage of their income in tax than those on the average wage.

The Government will therefore introduce substantial changes to the tax system.

The details will be announced in this year's Budget.

Cabinet has decided that tax changes will have to be fair, and have to help the productive sector.

All New Zealanders need to share the benefit of tax changes - not just the privileged few at the top.

We will not increase GST to pay for tax cuts for those on the highest salaries.

No one whose income is stretched today can afford to pay more income tax this year.

Nor should their taxes subsidise people who invest in non-productive asset classes simply to enjoy a tax free capital gain.

Over \$200 billion is invested in property - and yet rather than getting a net return, overall the taxpayer subsidises the sector. That can't be sustained.

Loopholes that allow high income earners to avoid tax have to be closed.

Soaring property prices and lack of capital investment in the real economy works against a high-skill, high-wage future for New Zealand.

## *IMPROVING PRODUCTIVITY*

### **Innovation**

What New Zealand needs most if we are to grow faster is more investment in science, in research and development, and in innovation.

No tinkering with tax can match the power of developing more commercialised science.

One of the first tax changes we made on taking office was to impose the largest increase in tax on business in New Zealand's history. We removed the credit for research and development.

This has turned out to be an enormous mistake. Fortunately, we can reverse our decision quickly, and only a year and a half of innovation and development has been lost.

Many New Zealanders have marveled over summer at the technical wizardry behind the special effects in the blockbuster movie Avatar.

Much of that work was done here in New Zealand, and our own Weta Digital is up for an Oscar.

Director James Cameron was quoted as saying "People think we shot it in New Zealand because the rain forests are beautiful there, which, of course, they are, but we didn't have a single day of exteriors on the movie. It was all created with ones and zeros."

Kiwi computer graphics skills helped make Avatar one of the most successful movies of all time.

If we can do that in movies, we need to do it in many other sectors.

The industries poised most obviously on the the global launching pad are our primary industries.

They already have global reach and scale, expertise, networks and markets to become dominant international companies. Our growing competitive advantage in biotechnology, and in agriculture, can deliver substantial export earnings, jobs and higher incomes.

When the \$700 million Fast Forward Fund was cancelled, it already had proposals ready to go. They were dropped and we wasted an opportunity to produce a step change in New Zealand's economic performance, and begin to catch up with other developed countries.

They depend on innovation, skills and high productivity to prosper. None of them get richer by cutting the wages and conditions of their workforce.

And so we need to reinvigorate our investment in the primary sector, and at our first cabinet meeting this year, the Government directed the ministers of Finance, agriculture and economic development to produce a fresh plan for breakthrough investment in primary sector innovation by mid-year, for implementation by the end of the year.

## **Skills**

Investment in innovation needs to be matched by a step change in skills training in New Zealand.

Lifting skills helps to improve the performance of our economy and lift incomes across the board.

The rapid increase in joblessness makes it vital to invest in long term skills, so that those whose jobs are lost can take up new skills

It's far better to have New Zealanders in polytechs, universities and other training, than in on a dole queue.

This requires a substantial increase in student places this year.

This year's budget will outline a substantial increase in education funding to ensure we provide places for adult students returning to study and to provide the skills upgrade we need to to emerge from recession stronger.

Last year we made a decision to reduce the skills strategy to trades academies in just five schools. We will extend this to every school.

By next year we will roll out youth apprenticeships with the goal that they should be available in every high school in New Zealand.

Every student from Year 9 on will have a personal education plan – agreed between the student, their school and their family.

The age for leaving education or training will be set at seventeen - this won't be a school leaving age for everyone, but those who leave earlier will have to be in work or further training and education.

We'll meet job losses head on, with a retraining allowance for workers who have been made redundant.

Cuts to adult and community education have resulted in cuts to skills training at the very time when it is needed most.

Adult education at night classes is comparatively cheap and provides second chance opportunities for people that can't be matched anywhere else.

There is no sense having out schools sitting idle and dark at nights, when there are people desperate to learn and communities who want to give them the opportunity.

The government will reintroduce funding for adult and community education and increase our support for skills training in the community.

## **Stronger capital markets**

While we deepen our skills, we also have to recognise that New Zealand is being held back by the poor quality of our capital markets.

In simple terms, New Zealanders don't save enough. The cuts we made to Kiwisaver and the cancellation of contributions to the SuperFund mean some hard choices are looming about the future ability of taxpayers to pay for NZ Superannuation.

The SuperFund will help to meet some of the future cost of superannuation. If we don't pick up enough of the cost in advance then either superannuation will be cut, other services provided by the taxpayer will be cut, or taxpayers of the future will face substantial tax increases.

Last year, when we suspended contributions to the Fund, global markets came back much more strongly than anticipated. Unfortunately, we didn't benefit from that as much as we could have, and the cost to the taxpayer of the lost investment return will compound.

Over the life of the Super Fund, the decision to suspend contributions will cost the taxpayer tens of millions of dollars in lost interest. That's money someone has to make up somewhere else.

So from today, the Government will resume contributions to the Fund.

The Government campaigned in Opposition on the clear statement that New Zealand's biggest problem is not debt; it's growth.

But we have nevertheless found an area where we can make savings and better provide for the future: We can't afford to spend \$110 billion on subsidies to big polluters under the emissions trading scheme the government adopted late last year.

To continue with a scheme that does little to reduce the emission of climate changing gasses would be particularly irresponsible when climate change is an urgent global threat.

Climate change is something we cannot ignore cost free.

If we ignored our liabilities we would be isolated in the world.

That is the consensus position of all major parties.

Someone has to pay for New Zealand's emissions of climate changing gases.

The real question is not - whether we will pay, or how much New Zealand pays.

Those questions are already settled.

The big question now is - who pays?

In these straightened economic times, polluters will have to pay for the costs of their pollution.

That will help to change behaviour, so that polluters emit less climate changing gas.

Under the scheme we passed last year, every Kiwi family will be worse off by hundreds of dollars each year in subsidies for polluters.

Hardworking kiwis are not flush with cash, and can't afford hundreds of millions of dollars a year - reaching billions of dollars a year in subsidies to polluters.

This is money we should be spending in the short term on tackling the jobs crisis and for rebuilding the SuperFund and Kiwisaver for the long term economic security of New Zealanders.

## MONETARY POLICY

Deeper capital reserves - saving more - will help to take the pressure off monetary policy too. When we are more reliant on our own savings, we will be less reliant on the savings of others, and therefore our interest rates and exchange rate will be under less pressure

There's no evidence that working people can afford higher interest rates now.

Our exporters are heavily exposed to volatility in the exchange rate.

When our exchange rate surges, it undermines the competitiveness of our prices in destination markets.

When the exchange rate falls, the price of inputs like fuel can soar unexpectedly.

The ideal is a stable and competitive exchange rate.

But our Reserve Bank policy targets are not well designed to produce a stable and competitive exchange rate, nor to keep interest rates as low as possible.

In fact, it often operates the other way round.

When there is a surge in domestic demand, the policy response is to increase interest rates.

Higher interest rates attract even more inflows of foreign capital, which then gets lent out and sometimes causes even stronger domestic demand.

As the parliamentary banking inquiry showed, the current Official Cash Rate punishes the tradeable sector for inflation in the non-tradeables sector.

The OCR skews investment away from the productive areas of the economy.

It is no coincidence that it's been nearly forty years since New Zealand earned as much as we spent overseas.

The closest we came in all that time was in 1989 - the year the Reserve Bank Act was passed, the bank was made independent and the single focus on price stability was adopted.

In those terms, the Reserve Bank Act has been successful.

An independent central bank is now orthodoxy, and it has worked well.

We battled inflation successfully.

But the battle against inflation is no longer New Zealand's sole or over-riding policy objective.

Growth and wealth creation are at least as important.

The Government will this year move to amend the Reserve Bank Act targets to include consideration of how to keep our exchange rate as stable and competitive as possible.

Price stability and low inflation will still be important objectives for the Bank. We need to guard against price rises.

The system we have causes widespread damage to the tradeable sector.

And it has to change.

## TRADE

We will complement a business environment that is better for the tradeable sector with ongoing pursuit of trade agreements.

Trade and competition fuel the economic dynamism and innovation that lifts productivity and the standard of living of New Zealanders.

Labour and National have worked together positively on trade issues.

The free trade agreement with China, signed by Labour leader Phil Goff, the first China signed with any OECD country, eliminates tariffs on 96 per cent of our trade.

It was followed up with an agreement that Labour negotiated with ASEAN that cut tariffs on our exports by 99 per cent.

Following those agreements, our trade with China has been rising, even while global trade volumes have been falling.

These trade agreements will go a long way to securing our future in coming decades, because of the emergence of Asian economies.

The Asia Pacific already represents 60 per cent of global GDP and around half of all international trade.

Eight of the world's ten fastest growing economies are in Asia.

The Government is committed to a satisfactory resolution of the Doha Round, to pushing back against rising protectionist pressure in our target markets and to a rules based approach for international trade.

I welcome Labour's bipartisan support for further trade agreements that will help to lock in more opportunities in future.

This is a strong economic program of increases in the minimum wage, active government policies to create jobs, investment in research and development, and changes to the tax system and monetary policy to better support productive industry.

It is focused on higher incomes and jobs.

This lengthy and active program will complement a series of innovations in social and environmental policy. Both are important parts of our economic policy.

## HEALTH

While we focus on the need for more jobs, and to help families meet the rising cost of living this year, it is essential that our core social services continue to provide the security New Zealanders expect.

As a result, Cabinet has asked the Minister of Health to bring forward a plan for health this year that will avoid charging families more for the treatment of accidents as we previously signalled.

Families whose budgets are stretched cannot afford to walk up to a cash register when they enter a public hospital for treatment.

Consequently, plans will not proceed to make accident victims produce an eft-pos card as they enter a hospital.

The savings from cashiers, accounting and cash handling fees will help to meet some of the costs of paying family caregivers, in line with recent court decisions.

The Government will invest heavily in health promotion activities to reduce pressure on the health budget in future.

Put simply: prevention is better than cure.

A spoonful of prevention makes the health dollar go a lot further.

But because we need to find savings, the planned increase in ACC costs will not go ahead.

Research here and in Australia shows clearly that our accident compensation system is much cheaper than Australia's privatised scheme, and provides better coverage for people who are injured.

We pay less, and get more.

Therefore the National Government recognises families cannot afford to pay higher premiums at the moment, just so that Australian insurance companies can make higher profits.

## *EDUCATION*

The other major policy change I am bringing to Parliament today is a better plan to improve learning in schools, and provide high quality information for parents.

New Zealand deserves a future with more highly-skilled citizens, who have better job prospects, greater life choices, and, in turn, who live in a society with less dysfunction, unemployment, welfare dependence and crime.

I see our education system as one of the fundamental tools for delivering this brighter future.

This country is home to some of the best schools, teachers and students in the world.

But New Zealand has, for too long, let too many children slip through the cracks.

I am simply not prepared to tolerate up to one in five New Zealand children leaving our schools without the literacy and numeracy skills they need to succeed.

Unfortunately, every expert who has studied our National Standards policy has advised that it won't make any difference to these problems.

What we really need are higher standards for the many, not just the few.

We don't need expensive league tables that simply tell us what we already know - that kids schools in rich areas get better exam results than schools in poor areas.

What we need are bold initiatives to improve the performance of the schools and children that are not being adequately served today.

We need to value quality teachers, not insult them.

Teacher quality, particularly the ability of a teacher to identify and convey to students the "next step" in their learning, is the single most important difference government can make to the quality of our education system. Our primary medium term focus is therefore on teacher quality.

We will work with parents and teachers to ensure all parents are properly informed about what is being done to support their child's progress, and to make sure every child has the best possible start in life.

The National Government is not so arrogant as to be incapable of admitting mistakes.

We have made a pigs ear of education so far, and I am taking personal responsibility for a change in performance.

Just as we expect higher standards from our schools, I will be demanding higher standards from the Education Minister.

## *LAW AND ORDER*

The final major area to cover in this Statement is crime.

The murder of an Auckland taxi driver last week was dreadful.

I recognise that I made a promise at the election that National would substantially reduce levels of violent crime.

So far, I haven't delivered on that promise.

The rate of murders last year was actually well up.

The few policies we have implemented so far will not make much difference.

The government will therefore this year bring tougher new measures to combat organised crime.

And we will introduce high quality new early intervention programs to get hold of kids before they go off the rails and start off on a life of crime.

The cost of turning around a young teenager who is on the highway to the cellblocks is high - but far lower than the cost of locking up that kid up later; and it avoids the damage that comes to New Zealand and to victims.

Simon Power has made a bad mistake in cancelling the successful intervention program, Te Hurihanga in the Waikato.

Instead of closing Te Hurihanga, the Government will progressively roll it out to cover other parts of the country.

To do less would be to allow crime to flourish where we could reduce it.

To cancel Te Hurihanga would make the government complicit in the serious crime that young offenders will go on to commit when this could have been avoided.

The Government is therefore going to reinstate it.

## *CONCLUSION*

The program I have outlined today is long, bold and marks a significant shift in direction away from policies driven by photo opportunities, to policies shown by evidence to work; away from policies that favour the many, to policies that favour the few.

Starting in 2010, the Government will make our priority wages, jobs, fairer tax, more skills, more innovation and a better environment for great kiwi businesses to grow.

The result will be lower unemployment than would result under policy settings as they have been for the last twelve months.

Wages in the hands of hardworking New Zealanders will be higher, and more kiwi families will have something left over at the end of the week.

The Government can no longer take a spectator's seat on the sideline.

That way of doing things avoids offending anyone, but it leads to a slow crumbling of New Zealand's economic potential, it leads to lost jobs and lost opportunities, and it weakens the foundations of our recovery.

It has meant decay, when we should aim to be vibrant. And it has meant the gains from recovery risk going to those on the top floor, instead of being enjoyed by the hard working New Zealanders who create them.

It's time for an active government to step up, and deliver. And today I commend this program to the House.