

NATIONAL'S ECONOMIC **ROAD TEST**

AUGUST 2012
DAVID PARKER, LABOUR FINANCE SPOKESPERSON



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NATIONAL IS NOT WORKING

NATIONAL PROMISED A BRIGHTER FUTURE. IT ISN'T DELIVERING.

Growth is weak. Jobs are not being created. And as a result, record numbers of people are leaving for Australia, despite National's promise that their economic management would entice people to stay.

This document looks at a cross section of economic indicators to test National's progress in government. It shows a government that made big promises and regularly makes claims to have a plan — but for all the promises, there are few signs of any progress at all.

It's important to cut through the excuses.

The startling fact about National's economic performance is not just that it is disappointing on nearly every measure, but that it's not even reaching the levels National sets itself.

Each year in the Budget National revises downwards its own expectations, and promises things will get better soon. And each year its own performance fails to measure up.

The problem is that underlying economic weakness isn't being addressed. Performance indicators such as our productivity and exports are not improving.

New Zealand has been struggling for a long time.

Back in the 80s and 90s, as globalisation took off, National made a policy choice to compete by trying to be a low wage economy. The labour market was slanted towards lower skill jobs, where working people on low wages substituted for capital investment.

New Zealand under-invested in new plant and technology. Savings were low, monetary policy jacked up our exchange rate and deterred productive investment, incentives for research and development went, and tax policy advantaged speculation for capital gain.

Even with low wages we could not compete against developing countries when producing lower-value high-labour content manufactured goods.

We should have encouraged investment in the sophisticated plant and innovation needed to improve labour productivity and sustain high wages.

In the 2000s, Labour got unemployment down lower than anywhere in the world. We sustained the longest period of continuous growth in a generation. We started KiwiSaver. We ran budget surpluses and so left stronger government books than most countries had when the global financial crisis hit.

But growth is again modest. We are still over-reliant on consumption and overseas debt, instead of exports and productivity growth.

The middle of New Zealand is being hollowed out, with rewards going to a few at the top, hardship for the many at the bottom, a squeeze in the middle, an ageing population and ever more of our people leaving for Australia.

I want a New Zealand that grows, provides for the vulnerable, and creates the jobs, social mobility and opportunity that fairness demands.

NATIONAL STANDARDS

“120 POINT ACTION PLAN”

SOURCE: http://stevenjoyce.co.nz/economic_development_action_plan.pdf (see also ‘Prime Minister welcomes first action plan, July 2012, <http://johnkey.co.nz/archives/1473-Prime-Minister-welcomes-first-action-plan.html>)

15 ECONOMIC POINTS IN NATIONAL’S “POST-ELECTION ACTION PLAN”

SOURCE: http://www.national.org.nz/PDF_General/PostElectionActionPlan.pdf

10 POINT “BETTER PUBLIC SERVICES RESULTS TARGETS”

SOURCE: http://www.beehive.govt.nz/sites/all/files/PMResultsforNZers_Min_0.pdf

“NATIONAL’S SIX-POINT PLAN FOR A STRONGER ECONOMY”

SOURCE: http://www.national.org.nz/web/economic_plan_1_aug_2010.pdf

“A PLAN THAT’S ‘WORKING’” - BUDGET 2012

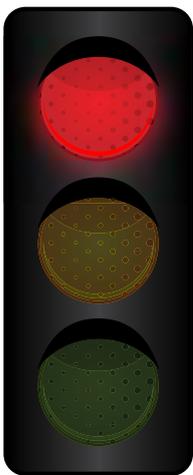
SOURCE: <http://beehive.govt.nz/release/budget-2012---sticking-plan-that-s-working>

“ROBUST ECONOMIC PLAN TO LIFT NEW ZEALANDERS’ INCOMES THROUGH SUSTAINABLE MEDIUM TO LONG-TERM GROWTH.”

SOURCE: <http://beehive.govt.nz/release/gdp-figures-confirm-need-government-s-growth-plan>

11 POINT “MY KEY COMMITMENTS TO YOU.”

SOURCE: <http://www.johnkey.co.nz/archives/507-TEXT-My-key-commitments-to-you.html>



LAUNDRY LISTS ARE NOT STRATEGY

LARGE LISTS OF THINGS TO DO ARE THE REVERSE OF A REAL 'PLAN.' A PLAN IMPLIES A VISION OF A FINAL DESTINATION, AND SETS OUT THE CHALLENGES TO BE MET ON THE WAY THERE.

But the Government doesn't really have an adequate strategy to make a sustainable difference to New Zealand's economic performance. Its original ideas for the economy haven't worked. The economy is still driven by consumption and debt, rather than export-led growth.

It responds to this failure by releasing more and more laundry lists of bullet points, some stretching out to 120 points of trivia, such as "Develop a series of 18 Great Rides around the country to attract tourists." Whatever the merits of cycling as a recreational activity, its inclusion in the government's economic development strategy document as a centre-piece of its plan for growth illustrates the absence of meaningful ideas.

Meanwhile, the government also includes on its lists of economic growth plans policies that demonstrably hold back growth and innovation in exporting: It highlights "removing Labour's R&D tax credit", despite the urgent need for investment in R&D to grow jobs, incomes and exports.

NATIONAL'S PROMISES:

Budget 2009: "This Budget will start making the long-term changes that National promised to make and that are needed to lift New Zealand's long-term economic performance."

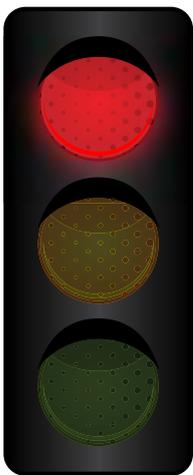
Budget 2010: "In the end, this was a Budget about growth, a Budget about jobs, a Budget about the future of New Zealand."

Budget 2011: "The Budget is likely to see very strong growth in real wages for New Zealanders ... very strong job growth; and a much stronger economic outlook for New Zealand:

Budget 2012: The budget "will show we are likely to experience reasonably robust levels of growth in 2013- 14."

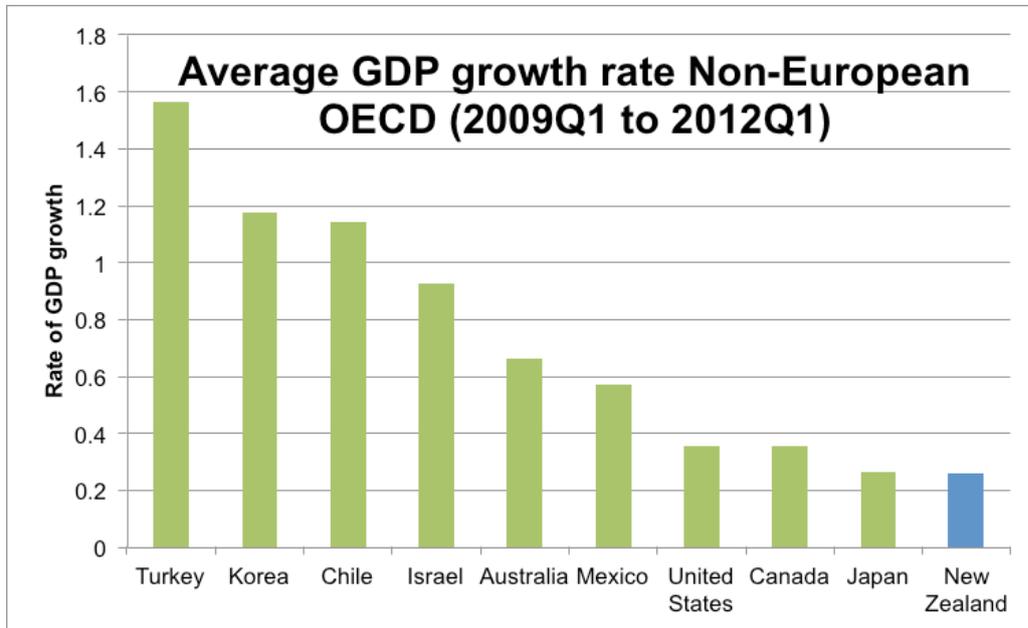
**“THIS
GOVERNMENT
WAS ELECTED TO
BUILD A MORE
PROSPEROUS
AND AMBITIOUS
NEW ZEALAND”**

SOURCE: Bill English, 19 May 2011, Parliament



**AVERAGE GDP
COMPARES POORLY
WITH MOST NON-
EURO ECONOMIES.**

GDP GROWTH



SOURCE: OECD

John Key: "I think by the end of 2009 early 2010 this time next year we'll be starting to come out of that and I think actually starting to come out of it reasonably aggressively, I'm more optimistic about 2011 than 2010 but nevertheless I think 2010 will be positive."

Over the past 3 years we have had one of the worst performing economies of any developed country outside of Europe.

Our major trading partners, Australia and China, haven't been in recession at all. Now renewed instability in global markets is laying bare weakness in the New Zealand economy.

In Budget 2010, Bill English said, "Growth matters. It is the only way that we can lift incomes, create permanent jobs and build the kind of country we aspire to be."

Our economy is hardly growing at all, with annual growth over the last year of 1.7 per cent — weak for an economy coming out of recession.

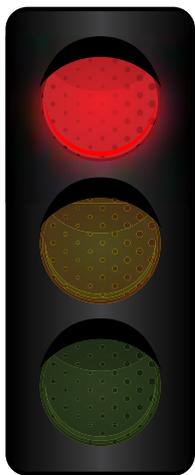
Every year the government promises higher growth in the future and every year it fails. In Budget 2011, Bill English promised 4 per cent growth this year. That was scaled back by 1 per cent in Budget 2012.

Too much of the forecast growth is projected to be paid for by borrowing. The ANZ bank calls our high debt-low growth combination 'the danger zone' and the BNZ calls it 'a very clear risk for New Zealand's credit rating'.

The biggest factor in GDP growth is still dairy production. That is good to see, but the economy is too reliant on our pastoral industries.

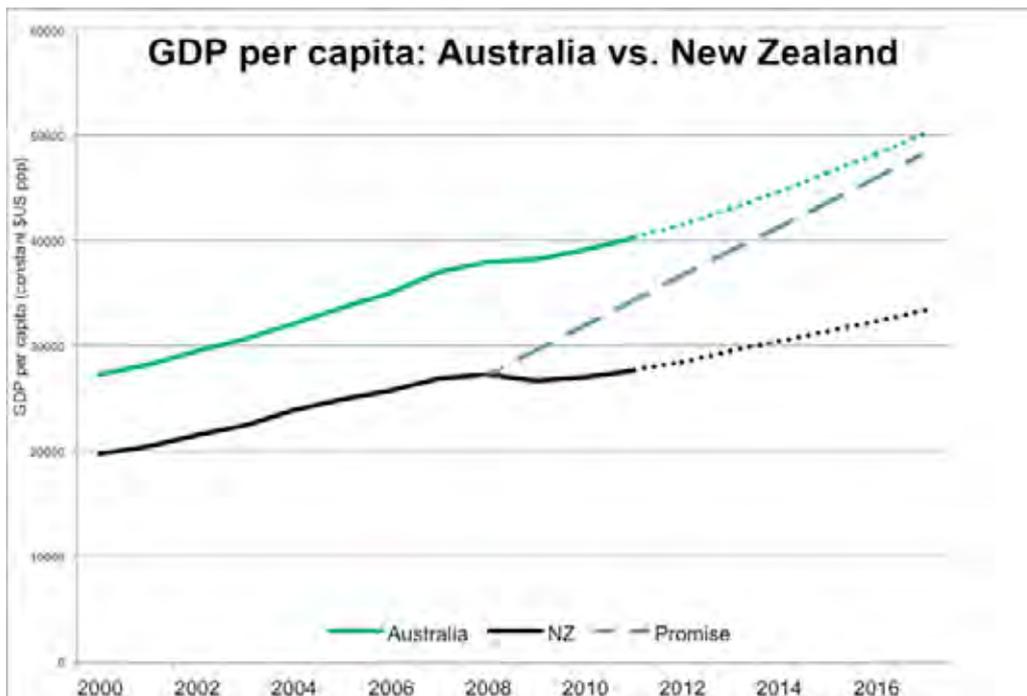
**“OUR VISION
IS TO CLOSE
THE GAP WITH
AUSTRALIA BY
2025.”**

SOURCE: John Key, 8 Nov 2009, Sunday Star Times



**THE GAP
IS WIDENING.**

GDP PER CAPITA - NZ V AUSTRALIA



SOURCE: Statistics New Zealand & Australian Bureau of Statistics

Closing the wage gap with Australia was a cornerstone of National's 2008 election promise.

The Government has now given up. The finance minister now says, "it is no good crying at the airport or wringing your hands over New Zealanders heading to Australia."

The weekly wage gap with Australia has grown by \$22.16 a week since National has been in office, from \$122.52 a week in September 2008, to \$143.92 today

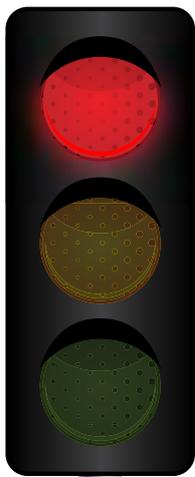
Today, the Government won't even provide a milestone date by which the wage gap will be back to where it was when they took office.

WAGE GAP: \$865.11 IN NZ, MARCH 2012, \$1009.03 IN AUSTRALIA, FEB 2012.

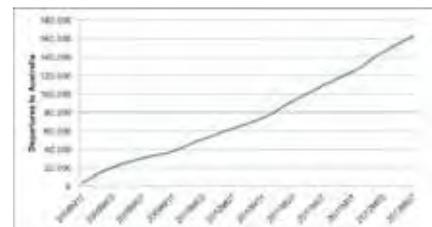
SOURCE: Stats NZ Quarterly Earnings Survey. Australian Bureau of Statistics Average Weekly Earnings. OECD PPP and Exchange Rates.

“WAVE GOODBYE TO HIGHER TAXES, NOT YOUR LOVED ONES”

SOURCE: New Zealand National Party campaign billboard, 2008



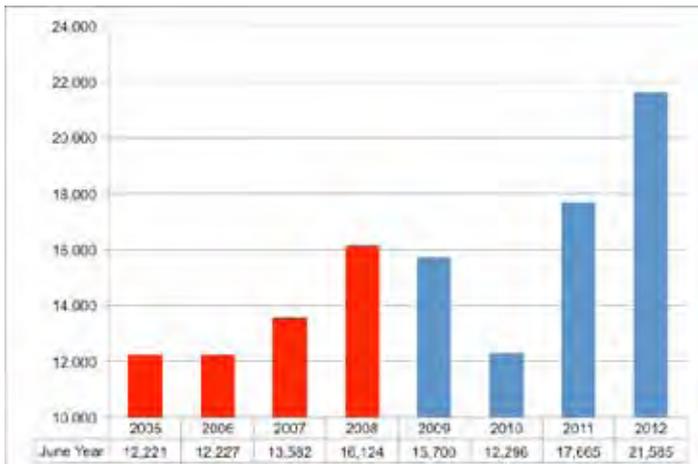
RECORD IMMIGRATION TO AUSTRALIA.



**Cumulative Migration to
Australia under National**

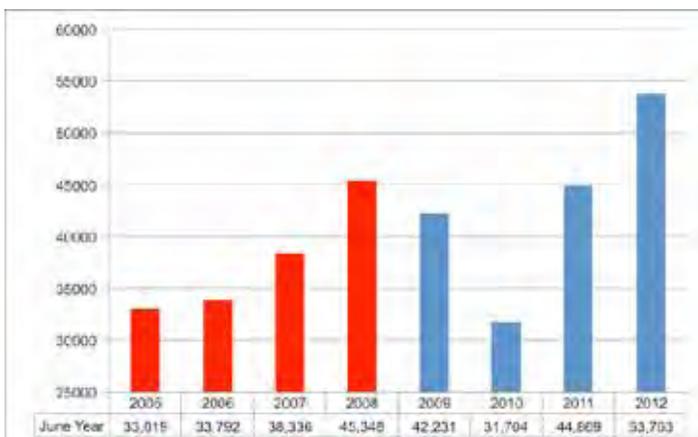
SOURCE: Statistics New Zealand

EMIGRATION TO AUSTRALIA



**Annual Migration from New Zealand to Australia
Aged 18-30 years inclusive
Year to June**
SOURCE: Statistics New Zealand

SOURCE: Statistics New Zealand



**Annual Migration from New Zealand to Australia
All ages
Year to June**
SOURCE: Statistics New Zealand

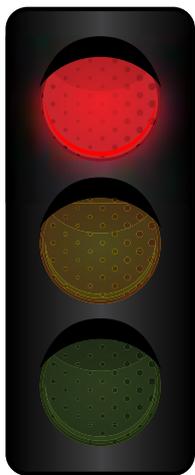
SOURCE: Statistics New Zealand

4,337 people departed New Zealand for Australia in the month of July. This is a new record for the July month.

- 53,873 people departed for Australia in the year to July 2012. That's a new record for annual migration to Australia, beating the previous record set in the year to June 2012.
- 162,504 people have left New Zealand for Australia since John Key took office in November 2011.
- 40 per cent are between 18 and 30 years old.

“WE ARE ALL IN THIS TOGETHER. WE ALL STAND TO LOSE FROM THE EMERGENCE OF A GROWING UNDERCLASS, AND WE ALL STAND TO GAIN BY DOING SOMETHING ABOUT IT.”

SOURCE: John Key, 31 Jan 2007, national.org.nz/Article.aspx?ArticleID=9215

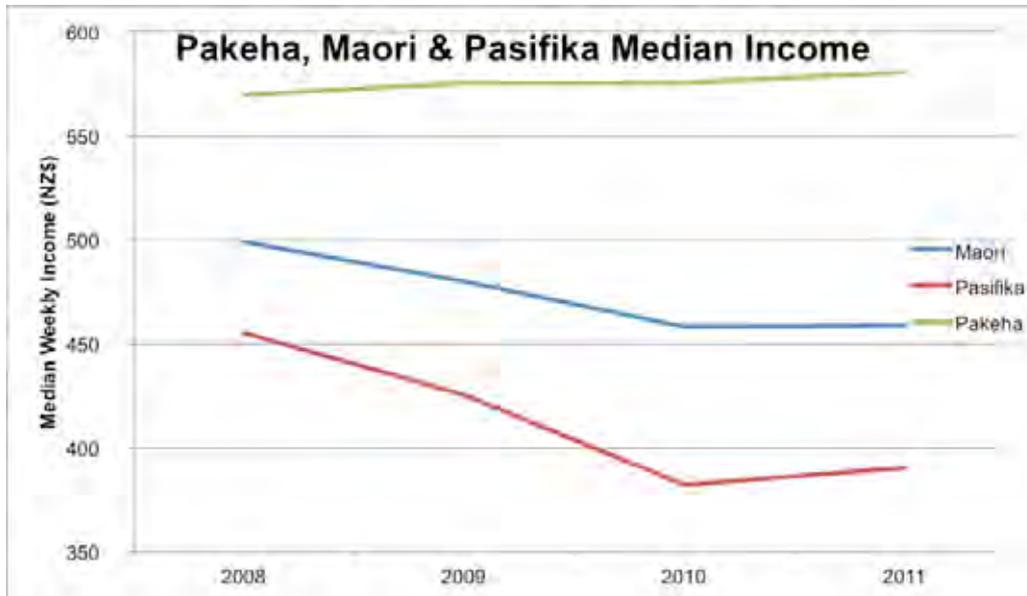


Pākehā Median Incomes increased 1.9% from 2008 to 2011

Māori Median Incomes fell 8% from 2008 to 2011

Pasifika Median Incomes fell 14.3% from 2008 to 2011

INCOMES



SOURCE: Statistics New Zealand

John Key: “It used to be that any street in any community could be the launching pad for a happy and fulfilling life. That’s not the case anymore. Today many are being left behind.

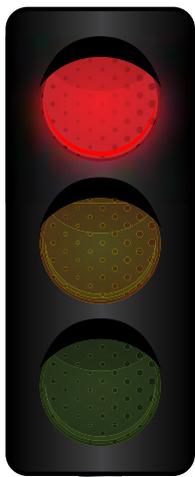
“There are streets in our country where helplessness has become ingrained. There are streets of people who believe they are locked out of everyday New Zealand the way most of us experience it, and are locked into a way of life for which the exit signs and the road maps have long since been discarded. These streets have become dead ends for those who live in them.”

SOURCE: national.org.nz/Article.aspx?ArticleID=9215

National have increased GDP per capita by \$4 since taking office in 2008. While most New Zealanders are being squeezed, Maori and Pacific New Zealanders’s incomes have been going backwards.

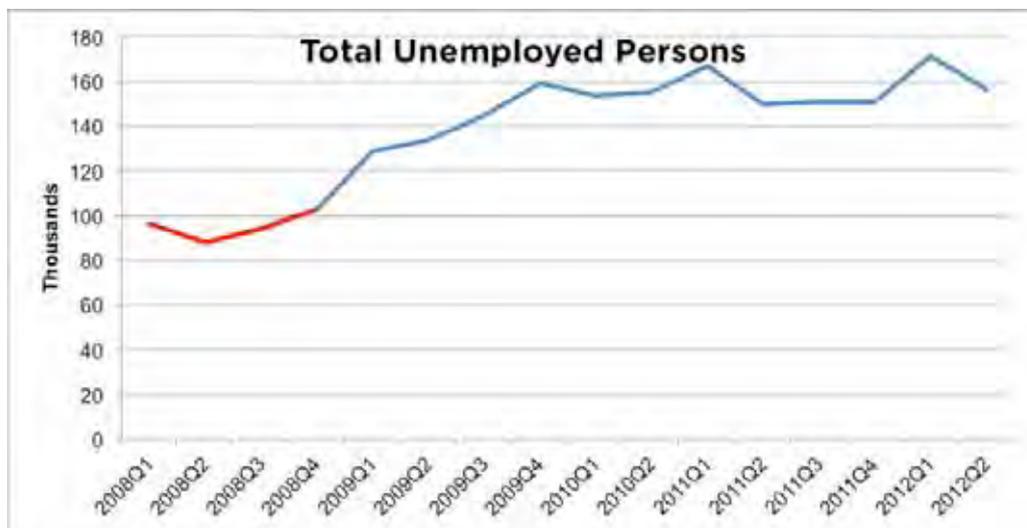
**“THE BUDGET IS
LIKELY TO SEE
... VERY STRONG
JOB GROWTH”**

SOURCE: John Key, 17 May 2011, Parliament

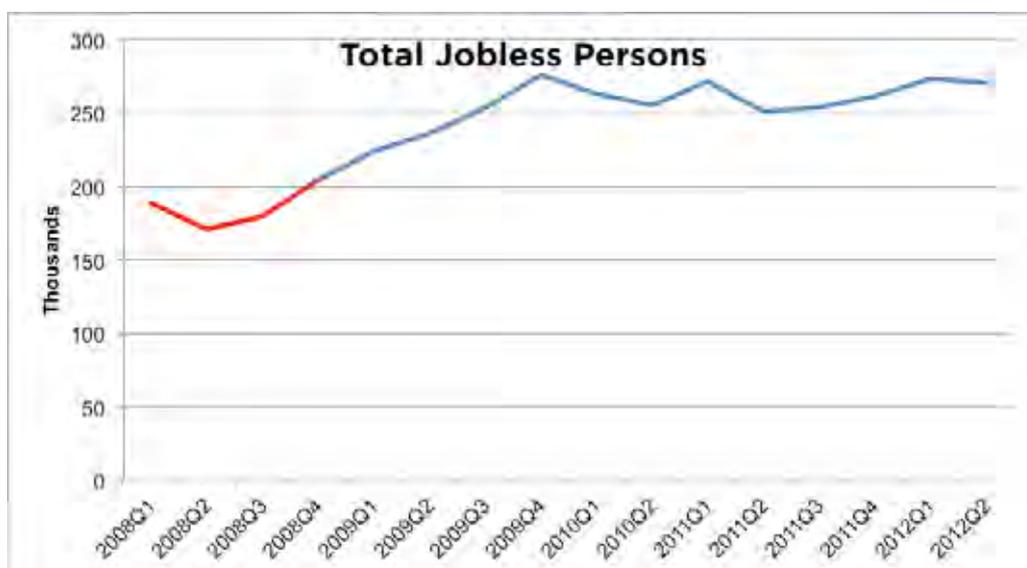


**UNEMPLOYMENT
IS 57,000 HIGHER
THAN WHEN
NATIONAL
TOOK OFFICE.**

UNEMPLOYMENT



SOURCE: Statistics New Zealand

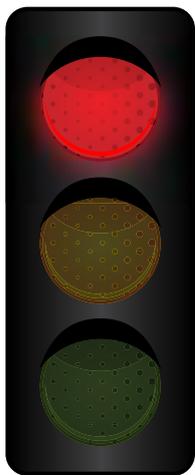


SOURCE: Statistics New Zealand

This is after 162,504 people have left for Australia.

“ALL NEW ZEALANDERS UNDERSTAND THE NEED TO REDUCE DEBT”

SOURCE: Bill English, Parliament, 19 June 2012.



“I certainly agree that our net international liabilities remain high. The primary driver of those has been high household debt—that is, New Zealanders paying high prices for houses, and borrowing most of the money offshore, ultimately, to pay for those houses. That problem has built up over 15 years.”

SOURCE: Finance minister Bill English, Parliament, 20 June 2012.

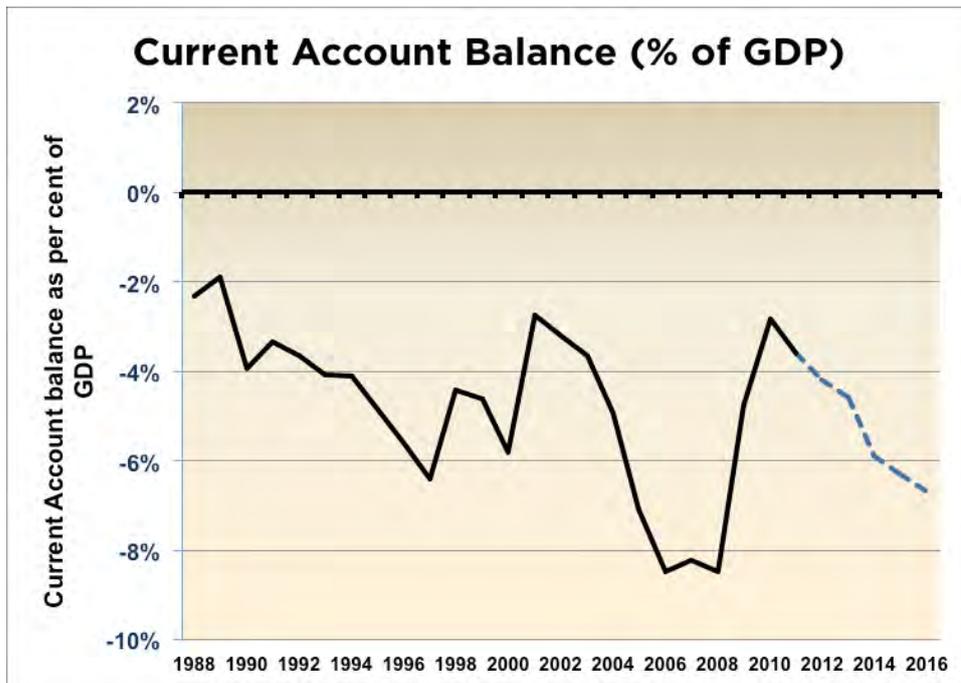
The current account deficit is widening to nearly 5 per cent of the economy, even in slow economic conditions when people put their cheque books away.

For a long time the value of our exports has not covered the cost of our imports and interest bill. The Government’s projections show this getting worse.

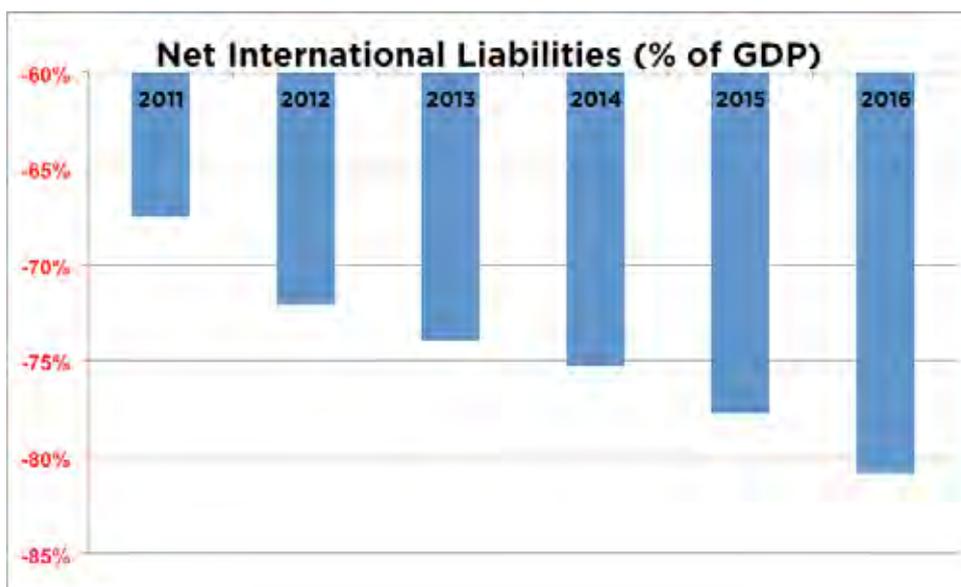
While the National Government has been talking about the Government’s deficit, it has been ignoring the international deficit.

As the ANZ has said, these figures mean our economy is moving into the danger zone. It commented, “Our high investment income deficit and external debt underscore the need to lift nationwide saving.”

OVERSEAS BORROWING



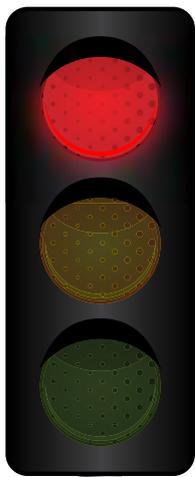
SOURCE: Statistics New Zealand and Treasury



SOURCE: Statistics New Zealand and Treasury

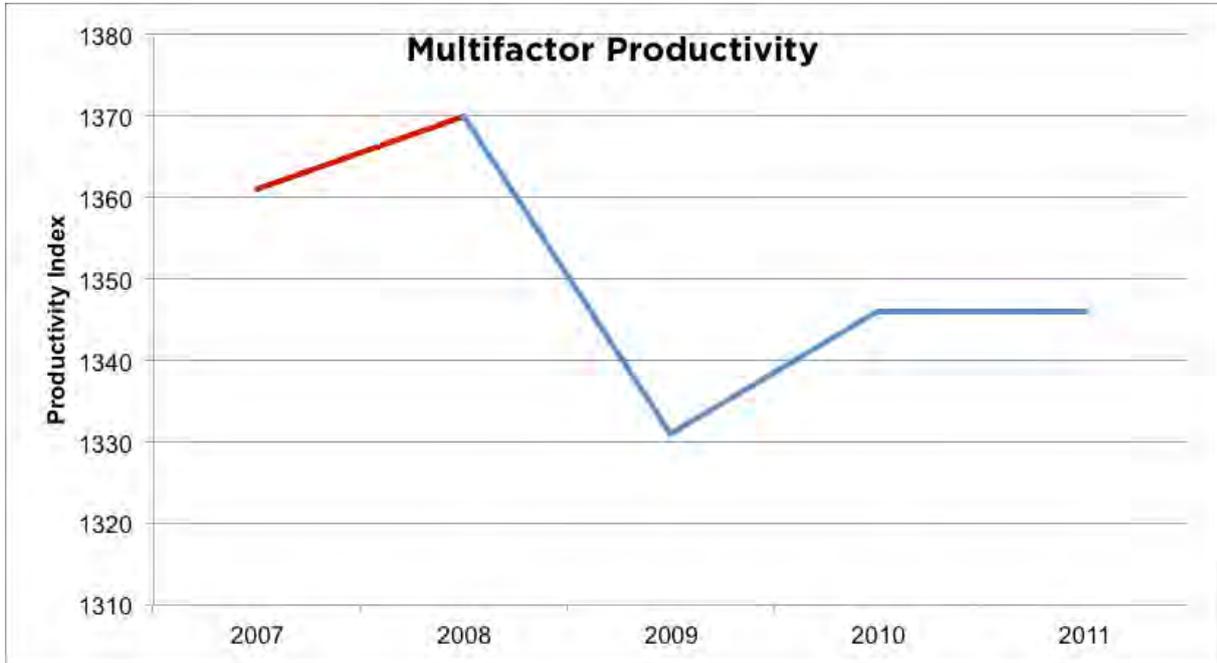
“BUILDING A MORE PRODUCTIVE ECONOMY”

SOURCE: John Key, 24 May 2012, national.org.nz/Article.aspx?ArticleID=38610

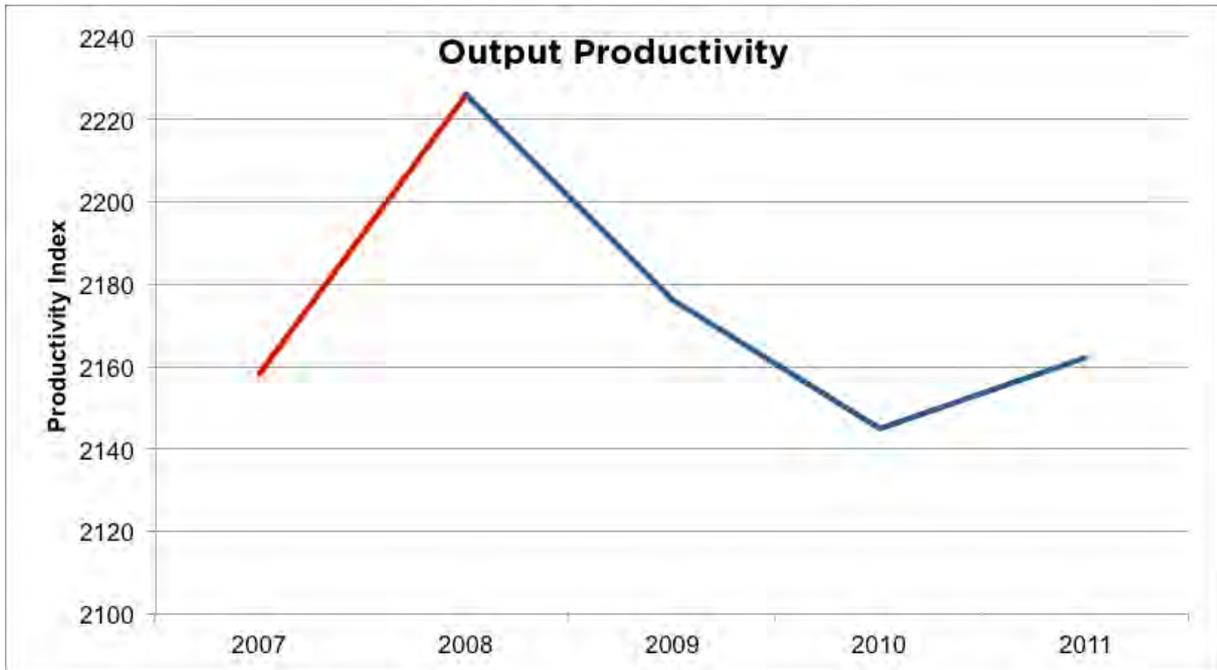


**PRODUCTIVITY
IS DOWN.**

PRODUCTIVITY



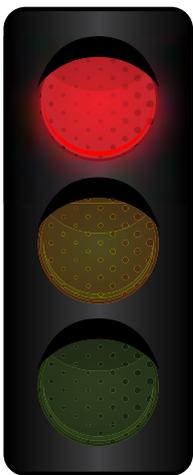
SOURCE: Statistics New Zealand



SOURCE: Statistics New Zealand

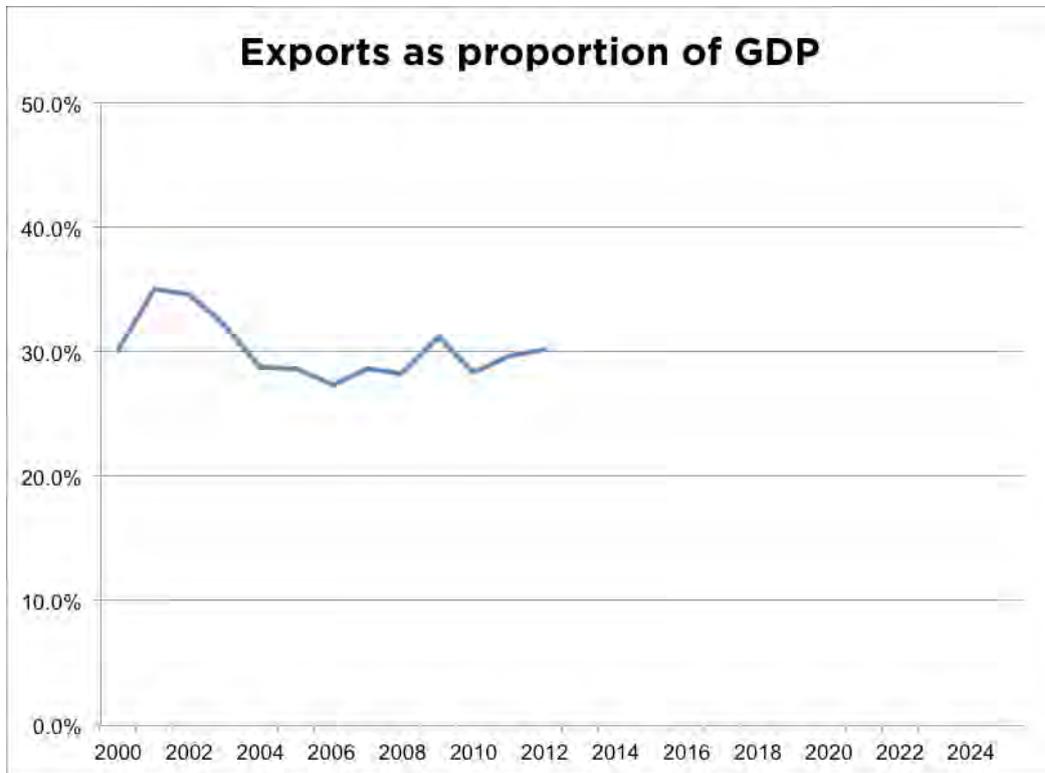
“EXPORTS TO BE 40% OF GDP BY 2025.”

SOURCE: Tim Groser, 20 June 2012, Address to the Pacific Economic Cooperation Council



**EXPORTS ARE
NOT IMPROVING
AS A % OF GDP.**

EXPORTS



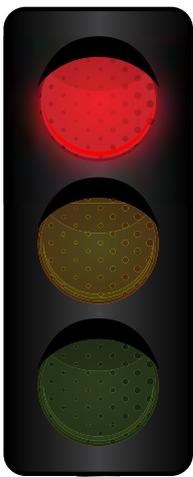
SOURCE: Statistics New Zealand

2008:	28.3%
2009:	31.2%
2010:	28.3%
2011:	29.7%
2012:	30.2%

Exports are not growing as a proportion of GDP even when GDP growth has been flat.

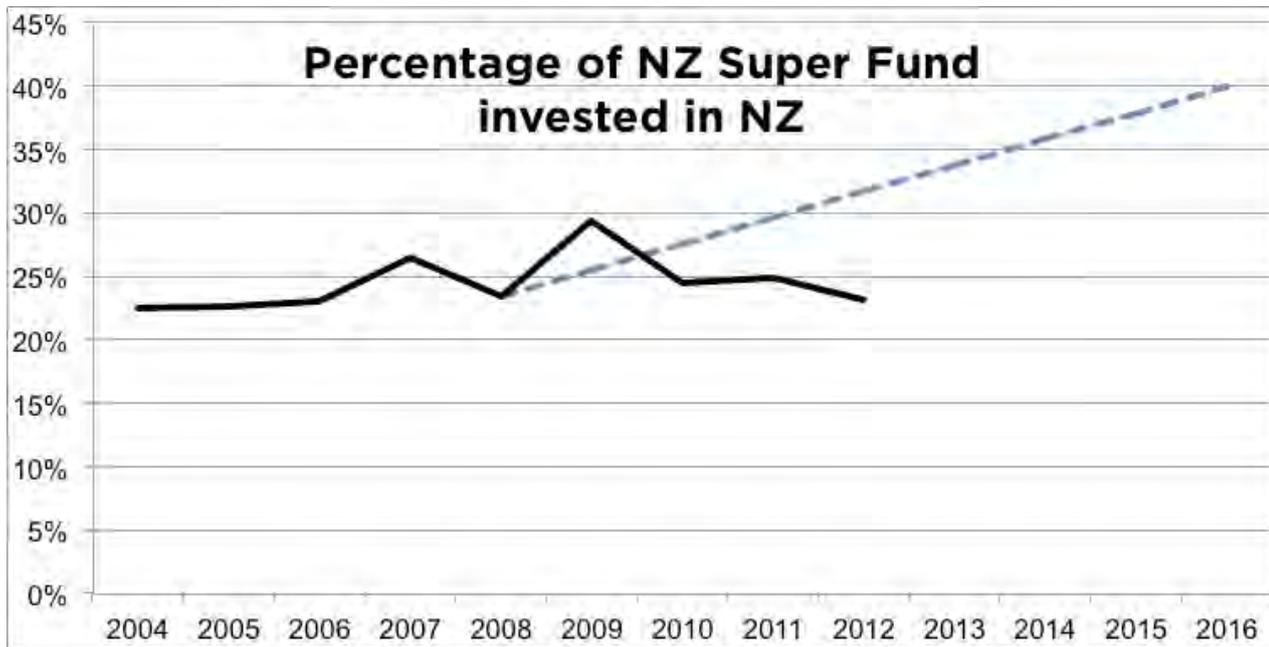
**“40% OF THE
SUPER FUND TO
BE INVESTED IN
NEW ZEALAND.”**

SOURCE: New Zealand National Party 2008 Manifesto



**PROPORTION
INVESTED IN NZ
UNCHANGED.**

SUPER FUND



SOURCE: The Guardians of the New Zealand Superannuation Fund

NATIONAL'S 2008 POLICY PROMISE:

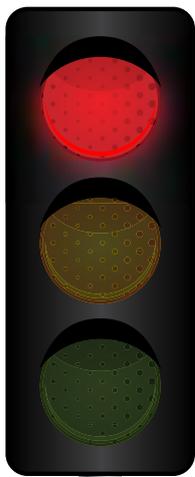
“National’s policy is for the Super Fund to invest a greater proportion in New Zealand, while also safeguarding the fund as a source of future New Zealand superannuation payments, and overseen by independent guardians. National will set the target of at least 40% of the Super Fund to be invested in New Zealand.”

National said that more of the Super Fund was not invested in NZ in 2008, “because Labour has done nothing to generate new investment opportunities.” Therefore, National has to accept responsibility for failing to create investment opportunities in New Zealand by 2012. They can’t include asset sales in this calculation, because the National policy was not to sell assets at the time it set a target of 40% invested in NZ. Instead it proposed:

- New Zealand-listed equities.
- Government bonds.
- High-quality commercial paper.
- Local government fixed-interest securities.
- Private equity.
- Property, infrastructure, forestry, and commodities.
- Longer-dated infrastructure bonds.

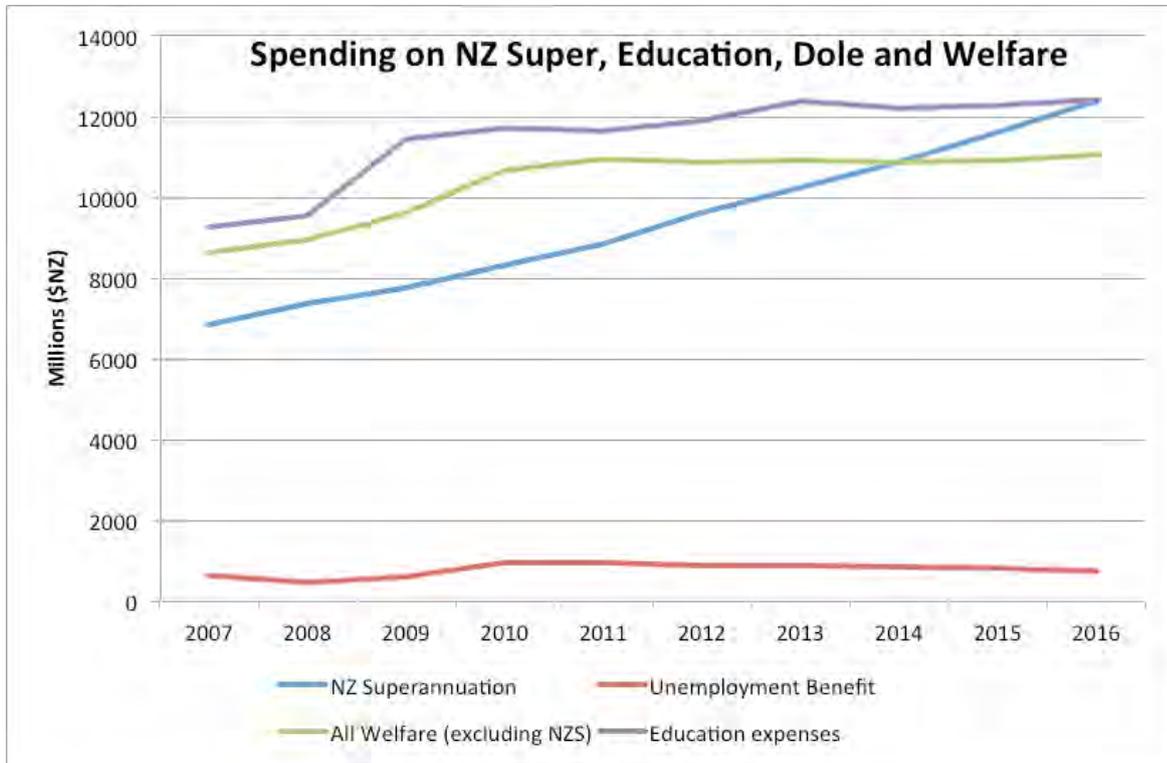
“GOVERNMENT TO STRENGTHEN FISCAL RESPONSIBILITY”

<http://www.national.org.nz/Article.aspx?articleId=38368> Budget 2012



**THE GOVERNMENT
REFUSES TO MAKE
PROVISION FOR
FUTURE FISCAL
PRESSURES.**

NZ SUPER COSTS



SOURCE: The Treasury, Budget 2012

FISCAL RESPONSIBILITY REQUIRES RESPONSIBILITY AROUND NZ SUPER

Ironically, the finance minister claimed in the Budget this year that, “The Government is proposing introducing some additional principles into Part 2 of the Public Finance Act that ministers would have to take into account when setting fiscal policy.

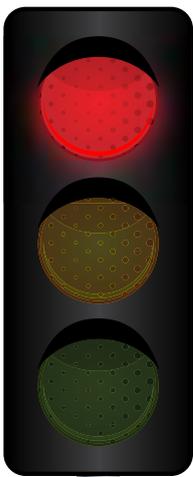
“The proposed changes are designed to ensure greater transparency around how government decisions affect the wider economy and future generations.”

The single largest fiscal pressure in the government is the looming cost of NZ Superannuation. In four years, the annual cost of NZ Super will exceed annual spending on all of the welfare system, or all of the education system from pre-school to tertiary. It will be large multiples of spending on unemployment. And with the retirement of baby boomers, along with rising life expectancy, the cost pressures will only rise.

National’s refusal to deal with the issue only it makes it more likely it will impose unfair and sudden change later when its too late for individuals to change their plans.

“MAINTAIN FIRM CONTROL OF THE GOVERNMENT’S FINANCES, SO WE CAN RETURN TO BUDGET SURPLUSES AND PULL BACK OUR RISING DEBT.”

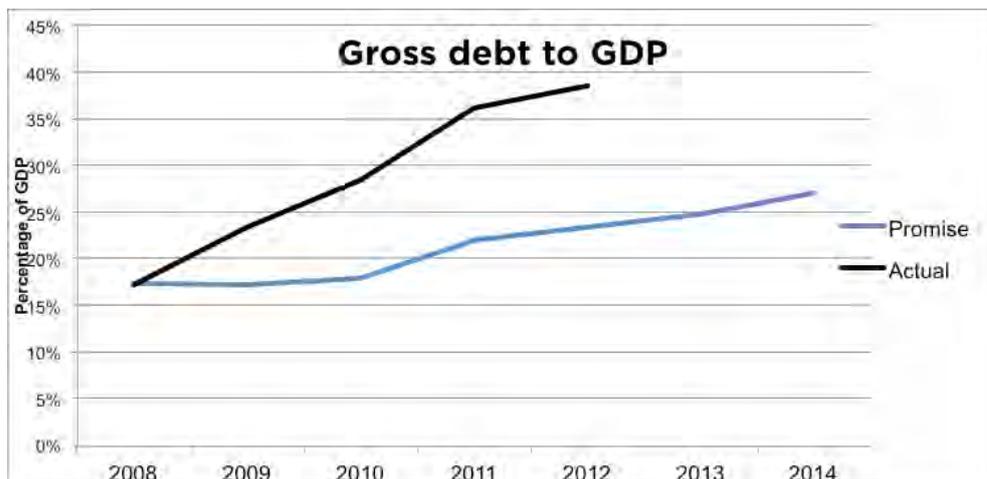
SOURCE: Budget 2010



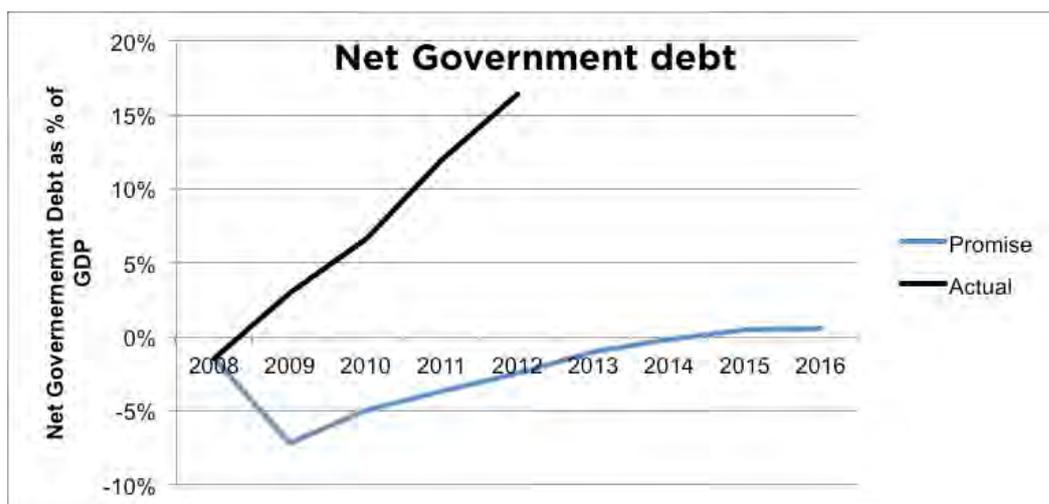
**LABOUR
RAN BUDGET
SURPLUSES
FOR 9 YEARS**

leaving the incoming National government with amongst the lowest government debt in the world.

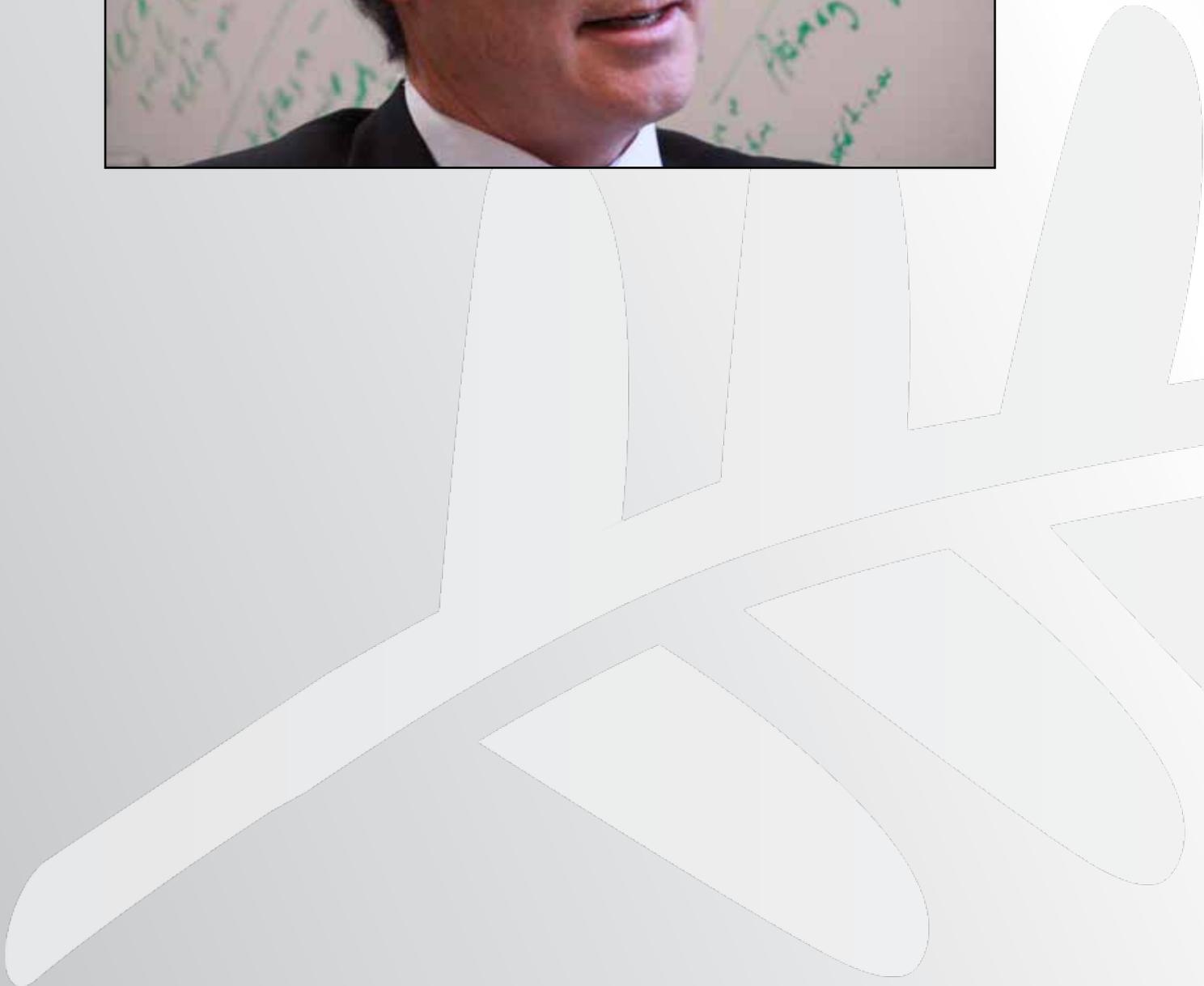
CROWN DEBT



SOURCE: Source: Statistics New Zealand, Reserve Bank of New Zealand & New Zealand National Party 2008 Manifesto



SOURCE: Source: Statistics New Zealand, Reserve Bank of New Zealand & New Zealand National Party 2008 Manifesto



LABOUR'S ALTERNATIVE

The figures set out in this document show that the Government is not delivering even on its own promises.

National believed it could tweak policy here and there and achieve substantially different outcomes.

It's not working. New Zealand needs to modernise.

LABOUR'S SOLUTIONS

- Pro-growth tax reform.
- Changing tax incentives in the economy to promote growth in exports, with a capital gains tax and R&D tax credits.
- Growing our heartland, high-value manufacturing, processing
- A new vision for skills, education and training so that New Zealanders can take advantage of the job opportunities of a 21st century economy.
- Investing more in innovation and science.
- Modernising monetary policy. Labour remains totally committed to Reserve Bank independence, and the control of inflation.
- Saving more.
- Universal KiwiSaver.
- Tighter controls on foreign purchases of productive farm land and infrastructure.
- Prudent decisions about looming fiscal pressures, including age of eligibility for superannuation.
- Changing Gear - a new economy and a fairer society: labour.org.nz/news/changinggear



Authorised by David Parker MP, Parliament Buildings, Wellington

