OWN OUR FUTURE

Labour

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Thursday 27 October, 2011 SPEECH

SAVINGS SPEECH

New Zealand's structural economic problems will not fix themselves. Structural problems need structural solutions.

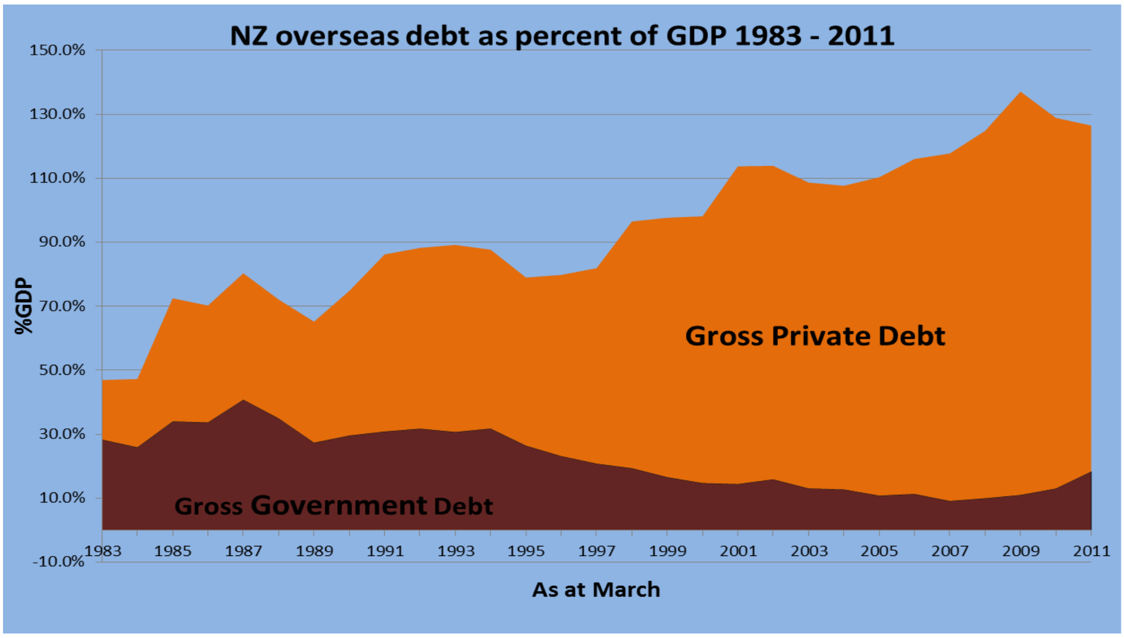
Change nothing and nothing changes.

Labour has already announced significant changes to monetary policy and to the tax system to drive investment capital into productive exports and jobs.

Today's announcement will help build the private savings we need to secure our future.

Europe has a government debt crisis. New Zealand doesn't, because the last Labour government ran surpluses in the good years (which National opposed). It is salutary to reflect on where NZ would be had we done what the governments of the UK, USA, Japan and much of Europe did - run deficits in the boom years.

Labour was fiscally responsible.



But New Zealand's long term trend of rising private indebtedness and asset sales requires action. We do have a serious private debt problem, which the global financial crisis has laid bare.

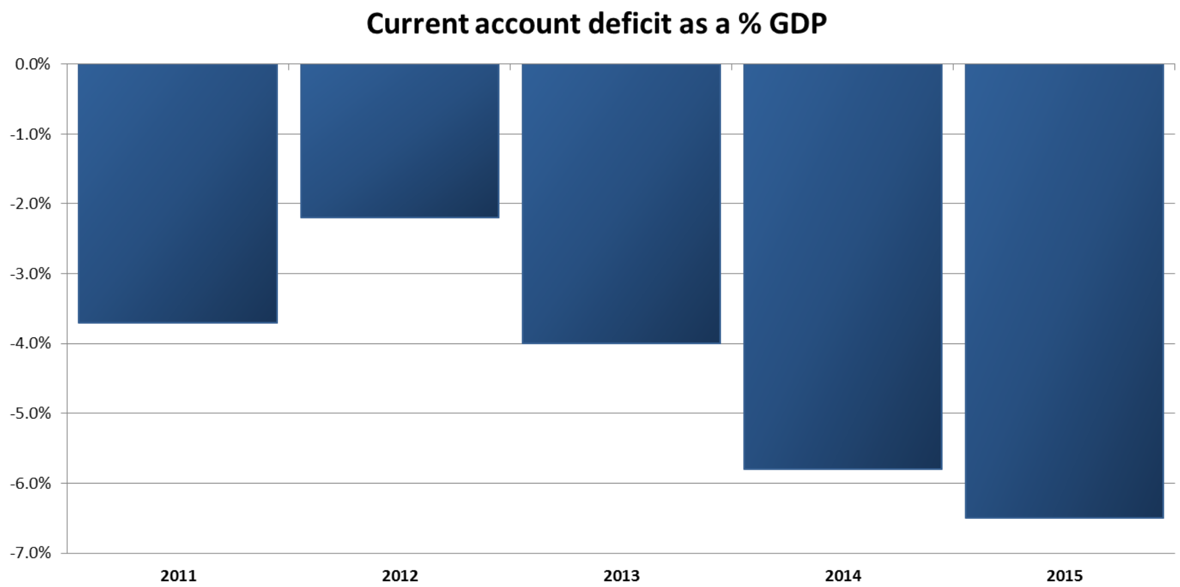
For decades we have imported more than we export.

The hole has been plugged by borrowing from overseas and selling NZ assets to overseas buyers.

Private debt has soared and New Zealand ownership of our assets declined. It's set to get worse.

There have been only short periods during the last two and a half decades when private overseas debt has decreased. The longer term trend cannot be denied.

If we change nothing, nothing will change.



Source Pre-EFU 2011

The current account deficit and the negative net investment position projections in the pre-election fiscal update prove this.

We know, from the government's own predictions, that under present settings our current account deficit remains negative and each year New Zealand will borrow more money, sell more assets and get poorer.

Even before the recent credit downgrades, New Zealanders already paid persistently higher interest rates than are the norm in many other countries. These higher interest rates impose significant costs on our economy. New Zealand exporters are at a disadvantage against overseas competitors who can fund their activities at a lower cost. New Zealanders also pay higher interest rates on their mortgages and credit cards.

Foreign investors with access to cheaper capital have a distinct advantage over any New Zealand party forced to borrow at higher rates when bidding for New Zealand business. Other factors being equal, the overseas purchaser can afford to pay more than a New Zealand buyer sourcing its funds from New Zealand lenders. This is not in our national interest.

To reverse the trend of rising private debt and higher interest rates New Zealand needs to increase private savings.

Sometimes we over complicate issues. Put simply, New Zealand needs more people saving more.

In the last three years the wage gap with Australia has grown ever larger. Month after month record numbers of New Zealanders are heading to Australia. Why? To seek jobs and higher incomes.

So what is it that those clever Australians are doing better than us? It's not the rugby. These days it's not even really the cricket.

A significant part of the answers lies in savings, and the investment capital that Australian owned businesses can access at affordable rates.

Higher levels of savings in Australia have resulted in higher levels of investment in Australian businesses.

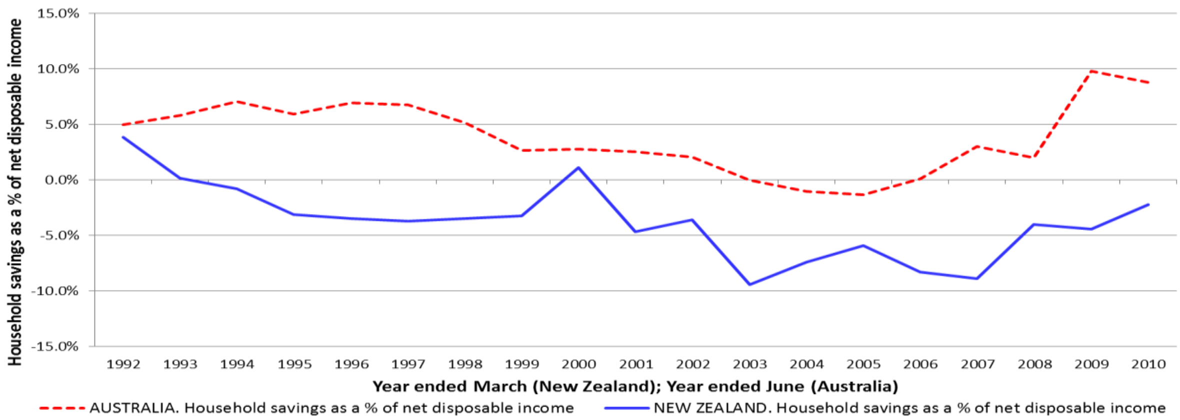
Not only has Australian per capita GDP risen to far higher levels than in NZ, but their net investment position as a percentage of GDP is markedly better (as at June 2011 NZ's is negative 70% of GDP compared with Australia negative 56% of GDP. Ours is set to decline further. There's isn't.).

For those who doubt that Australia is better placed because of their savings record, reflect on the fact that Australia owns their own banks – plus ours. In recent years the profits of those top 4 banks in New Zealand have exceeded the total profits of the rest of the NZX50.

The simple fact is that Australia and the Asian tigers save more than we do in NZ.

This graph shows how since 1992, when Australia introduced compulsory savings, Australia has consistently saved more than NZ.

Annual household savings as a percentage of household net disposable income in Australia and New Zealand (Source - Source - Australian Bureau of Statistics and Statistics New Zealand)



Long term problems need long term solutions

The rate of increase in savings needs to be moderate.

The 0.5% per annum increase proposed is how savings were improved in Australia.

This allows real incomes, after savings are deducted, to increase even while the savings build.

The gradual increase avoids cost of living pressures for savers, and also avoids the wider recessionary effect a sudden increase to the rate of savings could cause.

Universality becomes more important as the rate of work place savings increases. Having everyone in avoids creating an incentive amongst employers to avoid employer contributions by preferring to employ people who are not savers.

I will say only one thing about the age of eligibility for superannuation. Any government or party that pretends to deal with government spending or welfare reform without addressing the age of eligibility for NZ Superannuation is deliberately ignoring the most important point, and should be judged accordingly.

Table 6.2 – New Zealand Superannuation and welfare benefit expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
New Zealand Superannuation	6,810	7,348	7,744	8,290	8,830	9,597	10,235	10,824	11,590	12,449
Domestic Purposes Benefit	1,468	1,478	1,530	1,693	1,757	1,840	1,909	1,958	2,014	2,073
Unemployment Benefit	613	458	586	930	943	860	825	752	694	665
Invalid's Benefit	1,132	1,216	1,260	1,303	1,306	1,327	1,340	1,351	1,372	1,401
Family Tax Credit	1,699	1,897	2,062	2,168	2,139	2,131	2,125	2,075	2,038	2,054
Accommodation Supplement	877	891	989	1,154	1,197	1,199	1,218	1,232	1,247	1,276
Sickness Benefit	573	582	613	710	743	770	797	819	847	879
Disability Allowance	270	278	390	411	409	403	394	398	403	411
Income-Related Rents	434	465	512	522	553	587	623	663	705	705
In Work Tax Credit	461	563	584	595	585	564	558	528	503	499
Child Tax Credit	44	11	6	4	3	2	2	1	1	1
Special Benefit	106	71	..	..	..	..	..	..	..	..
Benefits paid in Australia	71	58	50	45	40	37	22	19	16	13
Paid Parental Leave	122	135	143	154	154	162	171	180	191	211
Childcare Assistance	139	150	159	178	188	183	181	178	182	189
War Disablement Pensions	122	134	125	137	135	133	130	125	122	117
Veteran's Pension	143	161	176	179	178	177	174	170	168	166
Other benefits	351	392	437	488	621	484	494	491	495	501
Benefit expenses	**15,435**	**16,288**	**17,366**	**18,961**	**19,781**	**20,456**	**21,198**	**21,764**	**22,588**	**23,610**

Source Pre-EFU 2011

The projected annual increases in private savings, once the universal KiwiSaver reaches maturity, are very substantial. Using the approach adopted by the savings working group, New Zealand's net international investment position improves by 17% of GDP after 20 years.

With more capital available for investment, productivity, profits and wages will increase. NZIER have estimated wages will increase by an additional 7% over 15 years if private savings substantially improve.

The effect on annual savings is impossible to predict with precision. If we use the assumptions*** used by the Savings Working Group, by 2025 total net savings from Universal KiwiSaver are estimated to be $4.4 billion per annum compared with under a billion per annum under current settings.

Labour is willing to pull the levers to improve our economy that only a government can. This is how structural change occurs.

Combined with changes to monetary policy, the R&D tax credit, and our capital gains tax, Labour's policies will grow our export economy and secure the future for current and future generations.

Otherwise, New Zealand gets poorer.

*** The assumptions used by the Savings Working Group are that 37% of the members contributions are additional (i.e. not a substitute for other forms of savings) and 33% of the employer and government contributions are additional.

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