

Hon Sir ROGER DOUGLAS (ACT): The 2009 Budget Policy Statement was prepared against the background of economic contraction since the March 2008 quarter. Stripped of any jargon, this means that we are poorer today than we were 15 months ago. New Zealand's recession was caused by Labour Government policy that substantially reduced our economic growth. A Labour Government made us relatively poorer. We funded the difference between our actual wealth and our desired wealth by allowing private household debt to balloon and mushroom.

In the private sector, under Labour, labour productivity declined by 60 percent, multi-factor productivity declined by 65 percent, our relative labour costs rose by 60 percent, and our balance of payments went from 3 percent in deficit to about 9 percent in deficit. Unemployment is now rising dramatically, as is Government spending as a percentage of GDP. Under Labour, New Zealanders refused to save; instead they chose to amass large household debt.

The Government's accounts have also been deteriorating. The only way to finance Labour's irresponsible bribes and expenditure, which are becoming more and more costly, is through racking up a large amount of debt, and we see that the National Government is going to increase that debt by \$40 billion. This will serve to further increase our current account deficit, and ultimately will require higher tax rates across the board.

Against this background, how does the 2009 Budget Policy Statement stack up? If we look at it holistically, we have to say that the National Government's approach to the recession has tended to be in the right direction. National has, generally speaking, avoided acting on the calls to implement more irresponsible spending as a solution to a problem that was caused by irresponsible spending in the first place. National has moved, instead, to cut taxes, ensuring that struggling households can, at least, last out the recession.

National has also freed up investment rules. The cap on bureaucrats and the review of some areas of Government expenditure will see the public sector share some of the pain caused by the economic contraction, ensuring the pain does not fall only on the private sector. All of these actions are laudable, but they simply do not go far enough. Overall, National is more worried about the cents than it is about the dollars, given the level of Government waste that it inherited. Moreover, National is at risk of getting bogged down in minor matters, and increasingly responding to calls to do something, hence the 9-day working fortnight and the national cycleway.

It is, unfortunately, becoming clear that National lacks the courage and the vision to transform New Zealand into a prosperous country again. It seems unwilling to push forward measures that would result in temporary pain but would create a framework within which growth would flourish. In my view, there are three reasons why National is unable to do what is necessary. Firstly, National is locked into election promises that have proved to be unsustainable. National lacks the vision to rethink how we can better deliver social services in this country, and I am afraid that until we do that we are not going to prosper. Secondly, National is still wedded to the idea that politicians can somehow make the system work, despite all the evidence to the contrary—for example, Labour wanted increased spending to lead to much higher output in the health sector. But in fact it delivered a dramatic reduction

to the rate of productivity in that sector. And, thirdly, National lacks the urgency to make the required changes. We are already seeing this with the lobbying of various unionists and other groups, such as the film industry. The tyranny of the status quo is a powerful force in politics and can be overcome only by rapid reform.

A deep-seated recession of the type we currently have requires three things of politicians. Firstly, politicians need to be able to make the hard decisions. That means we have to admit that we have been living beyond our means. Household debt cannot finance all our wants and desires as Labour seemed to wish it to do. Equally, Government spending and borrowing will not stop the pain; it will only prolong and slow down the correction that has to take place in this country.

Secondly, we need to set a clear and measurable goal, which New Zealanders can get behind. We need to be bold and aim for a sustainable economic growth rate of between 4 and 5 percent. Every policy, new and existing, needs to be measured against that target. Does it help or hinder its achievement?

Thirdly, politicians must set out to increase certainty amongst the public and within markets. If we do not do that, the recession will be much deeper than it needs to be. National's rolling maul is just spin for ad hoc policy responses. Such policy responses will continue to undermine the certainty that the markets need. Talk of potential bail-outs and guarantees reduces the ability of toxic assets to reveal themselves and be liquidated. With a clear goal and path, everyone could start working together to restore the country to prosperity.

As a country, if we like, we do not have to aim at prosperity. It is not necessary. Nor do we have to undertake a programme of reform. We can continue to self-deceive and pretend that we are prosperous. We can continue, as Labour did, to blame our economic misfortune on other people and other countries. We can continue to choose short-term gain and ignore the effects that it has on long-term prosperity. This path will see ad hoc and occasional reform, which will take the sharp edges off the increasing poverty that will be the reality in this country. We will continue to struggle, but life will not be great. We will continue to get relatively poorer, if we go down that path. We will lose access to the kind of health care, education, and goods and services to which only those in the First World have access. We will continue to do what we have been doing since 1996, but we need to seriously question whether this is the future to which we aspire. I do not believe that the 2009 Budget Policy Statement answers that.

We need to get real about the options we face. National's alternative of big government and low taxes does not exist. The only alternative to Labour's high taxes and big government is low taxes and small government. However, small government does not have to mean that people cannot have access to the social services they need. In fact, the opposite is the case. A well-designed system would not only allow New Zealand to grow but also give people better access to health care, education, and social services.