

Budget Debate – 25 May 2010

Hon Sir ROGER DOUGLAS (ACT): There is no doubt that this Budget has been well-received by the public at large. There is also no doubt that this Budget is vastly superior to the Budget of last year. It is also superior to anything that Labour produced during its 9 years in Government. There are some good measures in this Budget, but I will not dwell on that. I raise questions about two areas—and the last speaker, David Parker, raised a third area; I am not going to touch on that—where this Budget, in my view, does not stand up to the test of examination.

The first area is that of expenditure. Prior to the Budget the Government talked about expenditure increasing by around \$1.2 billion. In fact, Government expenditure under this Budget increased by around \$5.8 billion, or around 9 percent. That 9 percent figure is around four times the current rate of inflation. It is fair to say that in looking at the increase in Government expenditure, we should allow for the costs of offsetting the increase in the rate of GST, but even allowing for that, we see a situation where expenditure is increasing by around three times the rate of inflation. As a nation, we simply cannot put up with that or continue to do that for much longer. The unwillingness, frankly, of the Government to deal with expenditure, either in last year's Budget or this year's Budget, will see debt-servicing costs rise from around \$2.4 billion this year to \$4.5 billion in 2014. To put it another way, had this increase in debt not occurred, we could have had a corporate tax rate that is 4 cents lower and a personal income tax rate that is 4 cents lower than they are. That would do a lot more to get growth going in this country than the increases in expenditure will.

There were options to reduce expenditure, if we had been brave enough to take them. For example, there is approximately \$3 billion of what I would call corporate welfare in this Budget. Frankly, in my view, most of the people who are the so-called beneficiaries of that corporate welfare would have rather had a 4c or 5c extra cut in the corporate rate of tax and paid 4c or 5c less in the personal income tax rate than actually receive that corporate welfare. I have never seen a Government that can pick winners or spend the money as well as individuals can.

In my view, the problem with this Budget, in terms of expenditure, is also that it takes a short-term view of expenditure. This Budget has undoubtedly been tough on expenditure for a lot of departments—undoubtedly. We have put a cap in place, and that cap lasts for 3 or 4 years in some cases. But although caps work for a while, they do not work in the long run, and they put pressure on the system. What is required is much more fundamental change if it is to work. Fundamental change requires of a Government that it asks the right questions.

The first question it needs to ask is whether a particular department should actually exist. If it says yes to that, it should move on and ask about the functions that the department carries out and which of them should continue. In terms of the functions that will continue, the Government needs then to ask whether it is delivering those functions in the most effective way, or whether they should be opened up to competition—should they become contestable? Even when we determine that an item is desirable, we still have to weigh up whether that item is as desirable as some new request for Government expenditure. Only by following that approach will we get expenditure under control.

The second issue I want to raise—and it is, I think, an important one; and the last speaker, David Parker, touched on it—is the whole issue of the growth framework outlined in the Budget, which, I have to say, is totally inadequate. It will not enable us to catch up with Australia by 2025, nor 2035, nor 2045. The Budget outlined the six factors that comprise the Government's growth framework. The fact is that the most important item, if we are to have growth, was not even mentioned—it was not even mentioned. The most important item if we are to get growth back is the introduction of competition, particularly the introduction of competition within the State monopolies of health, education, and welfare. If one does not want to privatise and open up those sectors to the private sector, then one has to design a system that enables competition to take place within those departments. I personally want to see them opened up.

The health, education, and welfare services are approximately 30 percent of this economy. They pose a huge problem because of the lack of productivity within those areas. We have seen over the last 6 or 7 years a decline in productivity in health of 15 percent for doctors, and of 11 percent for nurses. Nothing in this Budget—nothing in this Budget—will do anything about that. The way that we avoid facing up to the lack of productivity is to increase expenditure. The same is true in education, where we have a system that is 70 years old, and that system is failing 25 percent of our kids. Each year 30,000 kids come out of school inadequately prepared for the future. The idea in this Budget that somehow we can flat-line future expenditure growth in education and in health is nonsense, given the present system. I know that the Government will say there is a \$1.1 billion allowance for new expenditure, but, frankly, that is not much more than the rate of inflation in the areas of education and health, and it is simply not realistic.

What are the six factors that the Government mentioned in its growth strategy, and how is the Government doing on each of them? There is the regulatory environment for business, the area of education and skills, and the need for quality infrastructure. That is a nice idea, but it is hardly the reality.

I will wind up by saying this: the real cost of taxes is not the money that individuals send to Wellington. Instead it is the dead-weight loss that arises when taxes alter how people behave, and we need to learn that. A review of OECD countries over a 40-year period revealed that those that had the fastest growth, averaging 6.6 percent a year, were those that spent less—spent less—than 25 percent of their GDP through the Government. If a country jumped to spending between 25 and 30 percent of its GDP in that sector, the average growth rate fell from 6.6 percent to 4.7 percent, or approximately a 2 percent drop. The trend continued all the way up. When Government expenditure was above 60 percent

of GDP, the average growth rate fell to 1.6 percent. Over time the compounding effects of adding just 1 percentage point to GDP growth are enormous, let alone the 4 to 5 percent we could achieve. The difference between countries that achieve 6.6 percent growth and those with 1.6 percent growth—5 percent a year—means that it takes 45 years to double their income in the case of those that achieve 1.6 percent growth, whereas those that achieve 6.6 percent growth double their income every 11 years. Over a 44-year period that happens four times for that group and 1.6 times over a 44-year period for the other.