

*Estimates Debate — In Committee, 27 July 2010*

**Hon Sir ROGER DOUGLAS (ACT):** To some extent the Opposition has put me off my stride, in the sense of what I was going to say. But one point—

Grant Robertson: Ha, ha.

**Hon Sir ROGER DOUGLAS:** Yes, the honourable member for Wellington Central raises—

Grant Robertson: I haven't even spoken yet.

**Hon Sir ROGER DOUGLAS:** No, I know, but the member raises an issue constantly when he gets up, and I think his senior whip raised it today. It is an issue that I would like to comment about, because I get rather sick of hearing about it all the time, when what is said is basically so wrong. The claim is made, and it has been made today, that had it not been for Labour paying off as much debt as it did during its period in office, then New Zealand would be in great difficulty today, because we would have a huge deficit. The story goes that had Labour taken National's advice to lower taxes, then obviously the deficit today would be much higher than it is and we would be in huge difficulty. Of course, that is absolute rubbish. It is absolute nonsense.

If we think about the period when Labour was in Government, we remember that during that time Dr Cullen and his Labour colleagues increased tax in real terms—and I emphasise “real terms”—by \$5,500 per person a year, or \$21,000 a year for a family of four. In other words, Labour had an alternative: to increase expenditure in real terms by \$5,500 a year per person, or \$21,000 a year for a family of four, which it did, or to lower taxes. Had Labour lowered taxes during that period but refrained from increasing Government expenditure, a lot of which was wasteful, then the deficit position would have been precisely the same, but people would have had another \$200 or \$300 a week in their pocket. How much better off New Zealanders would be today, had Labour not wasted so much Government expenditure during its period in Government. So the idea that Labour is promoting that it was prudent and that it paid off debt is absolute nonsense. It could have paid off debt and still had major tax reductions, provided that it did not have the wasteful expenditure that was equivalent to \$5,000 a year, or \$100 a week, per person.

The issue I want to raise with the Minister of Finance is in many ways an academic one, but nevertheless it is an issue that I feel is important, because in many ways it goes to the heart of New Zealand's difficulty. It concerns the nature of our fiscal deficit. Today and yesterday I did a bit of work on trying to reconcile the difference between the core Crown operating balance and the net cash flows, or the Government's borrowing, of \$13 billion. I do not think there is a table that enables one to do that. It is incredibly difficult. There is a core Crown operating balance deficit of about \$9 billion. We can adjust that for Crown enterprise operating balances. So we can get one figure, from which we have to, of course, deduct the non-financial instruments such as depreciation, etc. Then we can add to that the cash flows from investment activities, which amount to about \$11.3 billion. That is when I got into difficulty, because I simply could not find any table that demonstrated or showed me how the net purchases of physical assets, which are shown as being worth \$7.8 billion, were

actually made up. I could find capital expenditure in the departments of about \$4.2 billion, but I was unable to find the rest. It may be there somewhere, but it is certainly not in a convenient table, and I would be interested to know what the Minister intends to do about that.

But the point I raise, and it is why I was interested in this, is that I wanted to do a bit of work on analysing the so-called capital expenditure to see whether it is really capital expenditure. In other words, if it is not capital expenditure, then obviously the deficit is greater than the Government says it is. When I look at some of the so-called capital expenditure, I start to wonder whether it should be classified as being capital expenditure. Expenditure on items like the National Library of New Zealand heritage collection may be worthy expenditure, but is it really capital expenditure, or should it be added to the deficit? The Ministry of Education's quality reinvestment programme, whatever that is, and the investment by the Ministry of Economic Development in the external reporting of its Accounting Standards Review Board might be important items of expenditure, but are they genuinely capital expenditure? There is also the issue of the money—\$300 or \$400 million—that we are investing in KiwiRail. Is that really an item of capital expenditure, when it will not add one dollar to the capital value of the railways? How can those items and many others be regarded as capital expenditure, when the Government is actually borrowing this money and it will never show a return? In fact, it is not intended that it should earn an income.

I think there is a real issue here as to whether some items of capital expenditure that the Government incurs are really capital expenditure or should be classified more as ordinary expenditure, and therefore shown above the deficit line rather than below the line. This may appear to be a somewhat theoretical issue. But I think it is important, because it seems to me that the way that the Government arrives at its fiscal deficit in this country is somewhat different from the way that other Governments arrive at theirs. I am fairly certain that if we did our accounting on the same basis as other countries do theirs, then our deficit might be substantially higher than it is claimed to be.