

Hon Sir ROGER DOUGLAS (ACT): ACT welcomes this Taxation (Urgent Measures and Annual Rates) Bill as a small step in the right direction. This bill is in marked contrast to what we saw from the Labour Government over the last 9 years—a Labour Government that refused to adjust the tax brackets or to index them. As a result of that we saw a marked increase in the average amount of tax paid by average wage earners, so much so that low-income workers did not receive a real increase in wages during those 9 years after taking tax into account.

This bill restores the tax threshold position of 10 years ago for those who are on 21c in the dollar or those who are on low to middle incomes. It does not restore the relative position of those on the 33c or 39c index. In other words, those on the higher income are still in a relatively poorer, or worse, position than they were 10 years ago. The arguments that have been put forward by the Labour speakers in relation to the bottom tax rate of 12.5c simply do not hold water. If we analyse the people who pay only 12.5c we find that around 90 percent of that group actually come from high-income families. They are the wives or the husbands of high-income earners. They are the children of high-income earners. What the Labour Government did in its tax legislation of last year was to encourage income splitting so high-income earners who had the capacity to do that said “Thank you very much Labour” and the poor suffered, and the low-income and disadvantaged paid for that.

A real negative of this bill, however, is its failure to flatten the tax scale and, thereby, its failure to gain the opportunity to promote growth in this country. But when we talk about tax we are really talking about Government expenditure because taxation, in the end, is all about expenditure. What a Government spends, a Government must take from the public to pay for that expenditure. If the Government takes \$50 billion, it has to tax \$50 billion. If it takes \$100 billion, it needs to tax \$100 billion. We need to recognise that, and we need to pay a lot more attention to it.

The Government is, in fact, no different in that respect from any household in New Zealand. It is therefore important and vital that any dollar the Government takes from taxpayers is spent effectively and that a dollar spent by a Government returns to the nation at least as much as it would have returned had it been left with individual New Zealanders. We know with absolute certainty that that did not occur under a Labour Government over the last 9 years. The fact is that over the past 9 years core Government expenditure increased by \$18.2 billion, over and above inflation. This increased level of expenditure cost every New Zealander on average \$1,000 per month or \$12,000 a year.

I have listened to the speakers from Labour cry wolf about how they want to help the poor and the disadvantaged, but over the last 9 years they took \$18.2 billion in extra taxation from average New Zealanders or \$1,000 a month. The fact is that had we left that extra \$1,000 a month with low-income families in particular, they would be a whole lot better off than they are at the moment. The fact is that Labour spent that extra tax, that extra \$1,000 per family, on dubious programmes and failed social experiments that have not benefited New Zealand households by anywhere near the \$1,000 a month it took from them. Labour would have been far better to leave the money with them. For families, that \$1,000 per month represented books for children, meals in restaurants, carpets, clothes, and extra

savings. For the economy it represented lost jobs in shops, factories, and service industries right across the country. That \$1,000 that a Labour Government took from, on average, every household in New Zealand over the last 9 years was in large part redistributed via, as I said, dubious programmes. A large percentage was spent on extra bureaucrats and the bureaucracy. New Zealand's living standards over the last 50 years have slipped from third to 38th and in no small part has that been because over the last 50 years much of the money that we have taken from individual New Zealanders has been largely wasted on poor programmes.

One of the things we need to do if we are to get through the recession we are in, and if we are to grow and to catch Australia over the next 20 years, is ensure that Government expenditure bears fruit and returns to the nation at least as much as it would have had the money remained with individuals. In these circumstances, it is a nonsense to pretend, as Labour speakers have, that reducing waste, for example, is somehow seeking heartless efficiency at the expense of equity. The fact is that waste consumes resources that would otherwise be available to improve equity levels throughout the community. The fact is that every dollar of waste—and we saw billions of dollars wasted by the previous Labour Government—that can be eliminated is a dollar that is available for another programme, in particular to help the disadvantaged, rather than there being a cost imposed on them.

So how should we mark this particular legislation? At best I believe it is a work in progress. Having said that, it is not bad, given that the Government has been in office only 1 month and the fact that it inherited a pretty damned awful fiscal situation. But the fact is that marginal tax rates in this country are too high, particularly for families. Although I support the aims of the Working for Families package, it was delivered in a terrible way and the marginal tax rates that it imposed are creating a situation where growth will not occur. We have too much wasteful private sector effort once again being devoted to devising ways around New Zealand tax laws. Mind you, the Labour Government in its last Budget helped the affluent to do that.

The system, I am afraid, is seen to be increasingly unfair. This particular legislation will help that but it will not overcome that problem. The tax scale is far too progressive, which is a disincentive for people to work harder and increase their income. If we are to create a structure for growth we will have to do a lot more than we are doing at the present time.

I will finish by saying that in a global economy New Zealand's tax system needs to be as competitive as possible. If it is not, we will continue to slide as we did for the last 9 years under a Labour Government.