THE 2014 BUDGET

Address to the CPAG Breakfast
Undercroft Seminar Room, University of Canterbury, 16 May 2014

Paul Dalziel
Professor of Economics, AERU Lincoln University

E ngā tāne, e ngā wāhine, e tau nei, tēnā koutou katoa.

Ka tino nui taku mihi o aroha ki a koutou i tēnei rā.

Kei te mihi ahau ki ngā taonga o Ngāi Tahu,

tāngata whenua o tēnei rohe pōtae.

Ka iti taku mōhio o te reo Māori,

ēngari kei te mihi ahau ki tēnei taonga o ēnei motu.

Tēnā koutou, tēnā koutou, kia ora tātou katoa.

Thank you for your invitation to speak on Budget 2014. This is Bill English's sixth budget and my fourth consecutive year of speaking to a CPAG Post Budget Breakfast. It is worth thinking for a moment about the previous five budgets.

In 2009, the budget was dominated by the impact of the global financial crisis. The government accepted there would need to be fiscal deficits to get us through that crisis. A fiscal deficit means that government spending is greater than its revenue, so that it borrows from the private sector to make up the difference.

In 2010, tax reform reduced personal and company income tax rates and increased GST to 15 per cent. That was also the year the government set up its Welfare Working Group. In 2011 and 2012, the government implemented "zero budgets" meaning that any new government spending was matched by reduced spending elsewhere. Tax revenue began to grow again as the economy recovered and so the fiscal deficit began to close.

Last year, Bill English was able to ease off the brakes. The budget included some new spending on social measures such as extra funding for rheumatic fever prevention. But it also introduced tenancy reviews for all state house tenants and introduced new rules aimed at moving 79,000 people on the sole parents, sickness and invalids benefits to the new jobseeker support benefit.

This brings us to this year's budget. After seven years of sluggish growth, the economy is forecast to perform strongly over the next three years, driven in part by the Christchurch rebuild. Strong economic growth means the government can meet its target of eliminating the fiscal deficit in 2015 and also announce a significant expansion in increased government spending *thereafter*, from $1 billion per year to $1.5 billion per year.

The aim to achieve fiscal balance by June 2015 is why most of the $500 million package announced in the Budget to support families does not begin until the middle of next year:

- The extended paid parental leave does not move from 14 to 16 weeks until 1 April 2015 and to 18 weeks until 1 April 2016.
- The increase in the parental tax credit for other new parents is not introduced until 1 April 2015.
- The extension of free GP visits and prescriptions for children aged under six to children aged under 13 does not begin until 1 July 2015.

In my view, the overall approach of Bill English to the 2008 global financial crisis has been a reasonable one. It was vitally important to accept fiscal deficits to help cope with the initial impacts and I agree it is equally important that the country moves back into surplus over the medium term as the economy has recovered.

But we must recognise that successive budgets over the last six years have had a major impact on the way our economy is structured, to the detriment of community wellbeing. The tax reforms and the social security reforms, together with the ongoing emphasis on increasing New Zealand exports, have made it much harder for families on the margins of our economy to bring up their children.

Much as I welcome the family package in yesterday's budget, it will not redress the huge growth of child poverty in New Zealand that has occurred over the last three decades.

This year marks the 30th anniversary of the 1984 election that launched Rogernomics and our current approach to economic management. In September that year, an Economic Summit Conference made up of a wide selection of business and community leaders made no mention of child poverty as a serious issue. In contrast, the first Child Poverty Monitor report produced at the University of Otago last year included the following summary facts:

> The 2013 Monitor shows that one in four Kiwi kids are growing up in income poverty and one in six are going without the basic essentials like fresh fruit and vegetables, a warm house, decent shoes and visits to the doctor. Ten percent of children are at the hardest end of poverty and three out of five kids living in poverty will live this way for much of their childhood.

How has this come about in just one generation? Part of the answer is that New Zealand policy makers since 1984 have separated economic policy from social policy. This siloed approach is reflected in the structure of yesterday's budget speech, which separated "Building a productive and competitive economy" (focused on export-led growth) from "Delivering better public services" (which includes support for children and families).

The thinking seems to be this. First, we must build a productive and competitive economy. To do this, we should introduce "business-friendly" policies such as reduced business tax and ACC rates, changes to the Local Government Act and the Resource Management Act, social welfare reforms, youth wage rates, and weaker trade unions. In time, it is argued, a stronger economy will generate higher national income than can fund better public services for addressing the consequences of community poverty.

I think this thinking is wrong, and so I will finish my commentary with two major points.

First, although I have described the economy as recovering and projected to grow strongly over the next three years, our economic performance is not at all impressive when we recognise how favourable is New Zealand's current environment for growth.

The terms of trade, for example, measures the international prices we receive for our exports compared to the international prices we pay for our imports. Currently, New Zealand's terms of trade are at a forty-year high and 30 per cent above their historical average, driven in part by high Chinese demand for our commodity exports such as dairy products.

Given that extraordinarily favourable international trading environment, an increase in per capita gross domestic product of 2.2 per cent in 2014/15 (which is the peak in the budget forecasts) is really quite low compared to 2.5 per cent in 2003/04 or 3.3 per cent the year before.

My second point is that I think we have lost sight of the need to organise our economy so that people are able to earn enough income to raise their children well through their own efforts. The level of income needed to do this is known as the living wage and The Family Centre Social Policy Research Unit has estimated that its value in New Zealand is about $18.50.

Last year, the New Zealand Treasury did an analysis of Household Economic Survey data using their Taxwell model, which revealed the following features of wages in New Zealand:[1]

[1] Treasury Report *Analysis of the Proposed $18.40 Living Wage*, released November 2013, available at www.treasury.govt.nz/publications/informationreleases/livingwage, page 8.

Over half of the sole parents with dependents who are working have wage rates below the Living Wage, and most of these earn less than $15 per hour.

In 25% of households with two adults and dependents, the principal earner of the household is on a wage rate below the Living Wage. This earner may also have income from other sources, but generally the partner and dependents will have an even lower wage rate if they are earning wages or a salary.

Here is the fundamental problem that Bill English's six budgets have failed to address. Our economic policies are creating a low wage economy, in which large numbers of people are becoming trapped in jobs that do not pay them enough to raise their children well and to create lives they have reason to value.

I am not for a moment suggesting we should simply raise our statutory minimum wage to equal the New Zealand living wage. The living wage will always be higher than a country's statutory minimum wage because of different social norms reflected in each concept. The minimum wage sets a floor for the socially acceptable amount earned by any worker (for example, a school leaver in a first job). It is therefore an important benchmark in the national economy, but is clearly not designed to support a socially acceptable family life. This requires a higher wage, the living wage.

What I am suggesting, therefore, is that our current economic policies are not supporting enough jobs that pay a living wage for parents of children, and that the inability of parents to earn a living wage must by definition give rise to child poverty and cause other damage to the quality of life of families. Social policy is too weak to fix this basic economic problem.

Instead, as I said to this breakfast in Wellington last year, I think we need a sea change in economic policy as radical as the introduction of Rogernomics in 1984, thirty years ago. We need a new framework that directly promotes the capabilities of people to live the kinds of lives they value and have reason to value. We need what I and others have called wellbeing economics.

Kua mutu tāku korero mo tēnei rā.

That finishes my talk for today.

Tēnā koutou. Tēnā koutou. Kia ora tātou katoa.

That is you. That is you. May you and I, all of us, enjoy wellbeing.