

## LEADING SAVINGS: LABOUR'S 2020 VISION

Speech to the Workplace Savings NZ National Conference  
Christchurch Convention Centre, 26 August 2010

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### *Introduction*

Bruce Kerr, delegates to the Workplace Savings NZ National Conference, it is a pleasure to be here with you today and to share with you Labour's vision for the retirement savings sector in 2020.

There can be few more important questions facing our country today than New Zealand's ability to pay its way in the world, and to afford a decent retirement for all New Zealanders.

Both are threatened by the extraordinary savings gap that has seen NZ households borrow huge amounts to bid each others house prices up, while our most productive new businesses struggle to access the capital they need to grow.

While Australia has benefited from a deep pool of locally generated savings, NZ has accumulated a net international debt equal to 90% of our entire GDP, headed for 100% unless we act decisively to turn that around.

The principal component of that debt, as you know, is not Government debt - which was reduced to zero in net terms by the previous Labour administration and is still way below the OECD average - but private debt that principally fuelled the recent housing boom through the banking sector.

That debt has risen to hundreds of millions of dollars and is forecast to continue rising unless addressed.

Labour therefore puts a huge store on savings and on increasing our capital stock, because these are essential for our goals. These include

- *Jobs – more jobs and higher incomes.*

The more we deepen our capital pool - that is, the more we save - the more we will increase productivity and create high value jobs that pay higher incomes.

- *Helping Kiwi families get ahead.*

Labour wants hardworking Kiwi families to afford their slice of the Kiwi dream. If we save more, we take the pressure off interest rates for home-owning families.

- *Owning our own future.*

If we want to own our own future, we need to save enough to buy our own farms, land and businesses. If we keep spending more than we earn, then New Zealand can only pay for that by selling assets and debt. That is the only way a deficit can be funded.

Labour doesn't want to see New Zealand selling assets or needlessly plunging deeper into debt. We want New Zealanders owning our own destiny.

And unless Kiwis save more than we spend, we will continue to bleed red ink on our current account.

We will continue to see deficits that build New Zealand's net international debt to unsustainable levels.

We will continue to be exposed to international financial cycle levels because we own so little of our own future we lose the ability to pay our way in the world.

We will continue to be at the whim of investors who will demand ever-higher interest rate premiums for the privilege of loaning us the capital we did not save.

That is why savings matter to us.

So today I want to:

- Outline Labour's approach to date maintaining a prudent fiscal position; creating the New Zealand Superannuation Fund; and boosting savings through KiwiSaver;
- Look at where to from here – noting the key dimensions of any enhancement of KiwiSaver, and the development of new savings products to assist Kiwis to save;
- Illustrate the different sets of values that the Government and Labour bring to this crucial question of growing savings; and
- Provide context to the announcement this week of the Savings Working Group, and its terms of reference.

### ***Labour's 2020 Vision***

Labour's vision for the retirement savings sector in 2020 is that all New Zealanders will have the ability, the incentive and the tools with which to save.

In so doing they will not only own their own future but help New Zealand to build a stronger economy with high incomes and employment.

That means decent, rising incomes; a sound Government financial position and savings options which make getting ahead easy and worthwhile.

Labour approach therefore rests on:

- responsible fiscal management
- prefunding of New Zealand Superannuation
- expanding the role of workplace savings

- increasing the range of savings products available, and
- improving investment flows for local businesses.

The first contribution the Government can make to national savings is to avoid running persistent deficits.

Labour is staggered by what the current Government has been saying about Labour's fiscal record.

Fiscal deficits played no part in the New Zealand's current account deficits between the mid-nineties and this National Government coming to power.

National's suggestion that the problem is caused by the Government shows the ideological bias in National's thinking.

Any text book on how to fix a persistent current account deficit will tell you to fix the fiscal deficit. But there simply was no fiscal deficit through the entire nine years of the last Labour Government.

During this time National spent most of the decade complaining that the Labour Government ran fiscal surpluses that were too high.

They told us to cut taxes. John Key and Bill English used to make claims like: 'we don't have a debt problem, we have a growth problem.'

Now National is giving us both a debt problem and the same old growth problem.

Why? Because they didn't fix the savings problem.

Labour in office paid off the net debt.

### **We did that in part by creating the New Zealand Superannuation Fund.**

The Super Fund provides long-term stability to superannuation through partial pre-funding.

As a result, future Governments will be better placed to handle the cost pressures of a changing population.

So the Fund was a huge contribution to New Zealand's savings: And it is a form of compulsory superannuation too!

The Government collected tax, which is compulsory, and saved it for the future.

The current Government suspended contribution to that Fund. As a result they lost tens of millions in foregone investment returns by reversing the normal rule of investing – they bought high and sold low!

It's notable that when the global financial crisis hit - apologists for the National Government lined up to denounce it.

But those same critics are conspicuously silent now the Fund is earning well. That's most of the time. No one financially literate would expect an investment Fund designed for the long haul to make a positive return every year.

What ever you think of the decision to suspend contributions to the Super Fund - and I think the decision was wrong - once the Government stopped making the annual contribution into the Super Fund, it could no longer rationally also argue that it is interested in increasing national savings.

Governments interested in saving actually save.

Actions speak louder than the latest Task Force or Report.

So pre-funding the Super Fund and prudent fiscal management (a positive operating balance over the business cycle) are two spokes of Labour's policy.

A third is our contribution to enhanced workplace saving through KiwiSaver.

Kiwisaver's success is that it already gives New Zealanders more choices for securing their financial futures.

Workplace schemes have the advantage of reaching a broad section of the population. Around 1.5 million Kiwis are already Kiwisavers.

Kiwisaver is designed to take advantage of inertia: International research shows more participate if enrolment in retirement schemes is automatic.

So you have to opt out rather than opt in. From an efficiency point of view, there is no difference between opting in or out - but from the point of view of encouraging savings; momentum is a more effective agent.

KiwiSaver removed obstacles to make it as easy as possible for Kiwis to save.

KiwiSaver is growing quickly and helping hundreds of thousands of New Zealanders to save who would otherwise not be saving.

But KiwiSaver was gutted by National when it came to office. National turned it from a 'four-plus four' scheme (where both the employer and the employee contributed four per cent of earnings) to a 'four-plus-two' or 'two-plus-two' scheme.

In other words, under National, Kiwisavers save less.

As providers of this scheme, you will appreciate that the Government cannot both cut it, and then rationally argue that it is interested in boosting workplace savings.

### ***So, where to from here?***

Labour will lead the savings issue into next year's election, just as we have since Norm Kirk started the New Zealand Superannuation Scheme and Rob Muldoon scrapped it.

That's why Labour itself has been engaged in a wide-ranging review of savings policy.

That work is well advanced and will make a real difference to savings outcomes. We will release the result at a time of our choosing. In view of the Savings Working Group timeline, that will not be today!

What I will comment on at this point are matters that have been in and out of scope of our own internal consideration.

Out of scope has been any amendment or dismantling of the New Zealand Superannuation Fund or Kiwis' retirement entitlements.

Out of scope is any move to further weaken Kiwisaver.

In scope have been a range of options to improve and strengthen Kiwisaver, alongside other measures designed to increase household savings rates.

There are several dimensions to examining the future of Kiwisaver.

Firstly, the scale of the scheme could be improved. Options could include lifting the rate of contributions by employers, employees, and the level of incentive provided by the Crown.

Secondly, entry into the scheme could be accelerated or broadened. Currently a default entry on new employment exists, with an opt-out provision.

Earlier or wider entry into the scheme could increase the coverage of the scheme more quickly. For example, by definition, a "universal" Kiwisaver could see all earners or potentially all Kiwis enrolled.

Thirdly, the exit provisions could be considered. Early opt-out provisions could be amended or reviewed. Provisions for early draw-down or withdrawal of funds could be looked at to ensure they have right balance of flexibility and security for hard working Kiwi families.

The public debate about "compulsion" tends to over-simplify a complex problem. A truly compulsory scheme is one that everyone must enter and no-one can exit.

Whatever the best answer on those important questions, it is unarguable that KiwiSaver, like fiscal prudence and contributions to the New Zealand Super Fund, is and will remain an important contribution to our national savings.

And there can be no doubt that Labour is determined to lead the policy debate on this crucial issue for the future of our country into the next election.

Also covered by our internal review work has been work to provide Kiwis with **better products to help them save.**

Before KiwiSaver, four out of five New Zealand households had no financial assets at all.

It was instructive to look at why this is.

Clearly part of the problem is that many people did not feel they have enough left over at the end of the week to save.

But that can't be the full explanation.

If inability to afford to save was the whole story, we would expect to see savings increase as real wages increased.

Yet the real earnings of wage and salary earners today are on average significantly higher today than they were, say, 25 years ago. But savings rates are similar.

So what's going on is that many people don't feel they need to save, or they lack confidence in the security and returns from potential financial products.

That's partly why they have invested heavily in housing, which has also been hugely tax advantaged. Until recently it has provided above average returns, and housing is an easy investment to understand.

Likewise, many potential savers have had their fingers burned in retail investments.

Thousands of people have lost savings in finance companies - in far too many cases to irresponsible individuals who took their money, lived the high life for themselves and didn't play by the rules.

Labour will not tolerate behavior that undermines the integrity of markets and the confidence of investors.

Thousands of others have found the share market too hard going especially since 1987. Too few of our listed companies are genuinely creating a return from entrepreneurial activity. Our capital markets are thin and volatile, and further action is required to remedy that.

So for all these reasons Kiwis have been reluctant to save and invest beyond housing.

Providing new, relatively simple, relatively safe savings options for Kiwis could have a real part to play in increasing savings rates.

We have already announced we will make available **infrastructure bonds** at the retail level to help to build our infrastructure stock.

For example, Government can help local authorities to find the capital they need for new projects, such as replacing water systems, by making available retail investment vehicles that pay investors a fair rate of return.

Labour has also been examining the link between **savings and productive investment**.

Enhanced savings will not lead to better jobs and higher incomes if the resulting pool of capital simply heads offshore.

Our local capital markets are too thin. The Government has been too slow to implement many of the useful recommendations of the Capital Markets Taskforce.

Many Kiwi businesses find it hard to access capital, especially at an early stage, to fund innovation and growth.

There are dozens of small, innovative New Zealand companies ready to take on the world, but starved of capital. Venture capital is available at the price of sometimes too early sale of equity and there are real gaps in early stage angel and seed capital investment.

What we need are better ways to link up our most creative and innovative Kiwi companies - and their need for capital to fund their growth in the world - with investors looking for a chance to back Kiwi jobs, at a sensible risk profile.

Government may have a positive role to play in helping bring together our smart businesses with capital looking for a sound New Zealand investment in post-Hanover times.

And that will produce jobs, especially in our most competitive, high-tech, high-skill industries. It will produce better savings for New Zealand and help us to own more of our own future.

Labour is doing some exciting work in this area. We are looking at ways to provide new investment opportunities to strengthen our innovation sector as well. We will be making further announcements in this area in the reasonably near future.

### ***National's Perspective***

Let us consider the alternative.

First off, taking the big picture view, Labour is not convinced saving really matters to National.

It didn't in Rob Muldoon's National party, and it doesn't really appear to in John Key's, given that it has taken two years and two Budgets for Bill English to even set up a committee.

National is after all the party of laissez-faire and hands off, of faith in the free market. If you care about the purity of the market, then fundamentally you don't care about the outcome of market transactions.

To the market fundamentalist, whatever the outcome a transaction produces must be the right one.

So if National were true to its market ideology, it wouldn't ever see a savings deficit - they would just say the market has spoken and whatever the outcome is, it's optimal by definition.

For a long time National did say that.

In the nineties they did not seem to care about the balance of payments deficit. They just said that was the market would even out the balance in the long run, and there was nothing to worry about.

No, National's concern about savings is that National exists to help protect the interests of the haves against the have-nots.

They are mostly concerned with people who already hold a lot of capital – who have earned and saved, inherited, or speculated, on global financial markets.

They are not the party for all New Zealanders, including working people who don't all have piles of assets.

If they can dress this up as pro-savings, then they can make their ideological position more respectable.

For example, National tends to favour higher interest rate policies - that is why National is a staunch defender of the current monetary policy settings. The way the Reserve Bank runs interest rate policy today advantages those who own capital at the expense of those who use capital.

National says this is a way of promoting saving over consumption. But it is damaging to exports and jobs, and damaging to home-buyers with a mortgage.

John Key has explained increases in GST paid by the many, and deep cuts in income tax for a few at the top, as a way of encouraging 'savings.'

He says you will have a choice whether to spend or to save but that is a misguided analysis of choice.

You don't have much choice about whether to pay a power bill, or rates, or putting basic food on the table – and now paying 15% GST on all of it.

Trickle-down tax cuts for the wealthy and regressive GST increases for all are the wrong way to encourage saving.

### ***The Savings Working Group***

Remarkably it is only this week that the Government has announced the Savings Working Group, finally saying they now believe savings are an issue.

Let me repeat, after nine years in Opposition and two years and two Budgets in Government, National has finally realized that savings is a vital issue, and have set up a committee.

It will not report until January 2011, so the Government will have taken nearly a full term to even get options on the table.

But not for the reasons Labour thinks savings are an issue: jobs, incomes, owning our future and helping to take the pressure off rising house prices.

The Working Group's terms of reference are instructive. The Government has begun by trying to define the problem away from household savings to "national savings".

It follows that their first tool is “fiscal savings”. If they shrink the state, cut services and run fiscal surpluses – then it could be said to be “saving” to offset the private savings deficit.

But here’s the problem: three quarters of total international debt is private debt. Reducing Government expenditure enough to radically shift that total would cause huge social and economic damage.

Labour believes the savings problem must be fixed at the source. Private savings must rise. That must be the first objective of policy.

The second term of reference is to examine the use of tax incentives to increase savings, including a dual income tax system and indexation of savings taxes. While the incentives question may be worth asking, there are several problems for the Government.

Firstly, National’s previous superannuation review in 1992 explicitly ruled out tax incentives because of the high fiscal cost, the fact that the benefits were mainly captured by the wealthy, the distortion of investment patterns, and diversion rather than net increase of national savings.

The Savings Working Group would need good reasons to conclude otherwise. That could mean contradicting decisions the Government has recently made based on the recommendations of the Tax Working Group.

Having no policy of their own and out-sourcing to random groups of experts is not without risk.

Which brings us to Kiwisaver: the Savings Working Group’s third term of reference is to examine “the fairness and effectiveness of current Kiwisaver subsidies and options to make it compulsory”.

Let’s reflect on that line of logic: there is no net new fiscal injection so there cannot be new incentives (or at least none that could deliver a “step change”).

There are significant issues around tax incentives.

There is no mention of increased employer contributions.

So if the Government isn’t saving, and employers aren’t saving, what would induce households to increase their saving?

This logic leads commentators to assume the Government’s real target is compulsion.

As the 1992 review concluded, that brings in another set of issues around affordability, equity (especially towards women and those not full time in the workforce) and regressivity (benefiting the wealthy more than the poor).

How National will attempt to navigate these rocks and rapids remains to be seen. But one thing appears certain from the outset - National’s late initiative to set up a committee is not likely to provide them with a magic bullet, or to avoid a difficult balancing act between competing objectives.

National's track record and underlying values will be under intense scrutiny.

## **Conclusion**

Labour will lead the savings debate in 2011.

Our vision for workplace savings in 2020 rests on strong foundations, clear and enduring values, and a record of delivering real solutions to tough problems.

Our record of fiscal prudence with positive operating balances over the business cycle, and the reduction to zero of net debt, meant that under Labour, government was part of the savings solution not part of the problem.

We are clear that the NZ Super Fund should continue to underpin retirement incomes, and must be prefunded to ensure it continues to do so over the long term.

National's decade of deferrals and lack of transparency is a shameful deceit that sees Muldoon rising from his grave to wreck a new generation of superannuation.

KiwiSaver has provided a brilliant workplace savings option for most New Zealanders. We have been actively considering options to further enhance and strengthen KiwiSaver to make an even greater contribution to the savings effort.

We believe innovative products are needed to help New Zealanders who want to save to find better opportunities to back Kiwis - our infrastructure, and our smart industry.

We are carefully considering ways to ensure a strong domestic savings industry and vibrant local capital markets to ensure proper transmission of local savings to local investment.

For years now Labour has shown leadership in the savings debate.

Leadership in workplace savings.

Fairness in providing opportunities for all New Zealanders.

Security in retirement.

And real ambition to grow our capital and investment markets

Labour believes New Zealand must own its own future.

A strong savings policy is essential to that end.

That is what Labour will deliver.

Thank you.