

*If I were PM: Hard choices for renewed prosperity*

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The campaign that (unexpectedly) elected me would have emphasised that hard choices need to be made to markedly lift New Zealand's economic performance and end the relentless outflow of our people (500000 or so since 2000). We won't reverse decades of relative decline with half-measures or policies that simply paper over symptoms or pretend there are painless solutions.

Heading into tough times, trust in those lead is going to be vital. So from the start I'll be clear to ministers and officials that anyone found to have deliberately misled Parliament or the public will be shown the door. Strict conflict of interest standards will be enforced.

Successive governments have run large structural fiscal deficits. That's borrowing to, in effect, pay for the groceries. It has to stop. Subsidies to business will be ended, whether for "major events", or grants to film and gaming. The last KiwiSaver subsidies and most early childcare ones will go. Interest will go back on student loans. A large proportion of people aged 65-69 are now still in work, and we will act immediately to raise the superannuation eligibility age to 70 over the next ten years. I'm 64, and the change will start before I turn 65. Spending will fall and tax revenue will rise.

Discipline around capital spending has been weak too. We will be a lot more stringent. Government agencies now evaluate projects as if a 2 per cent real return is just fine, when private firms typically require annual returns in excess of 10 per cent.

Getting durably higher real wage growth depends on productivity growth. That, in turn, depends on firms: new or existing ones finding many profitable opportunities to build more or better businesses in New Zealand. That simply hasn't been happening to anything like the extent required. And too much of what investment there is has been inward-focused, simply to keep up with a rising population. Exports – a marker of firms' success in the global market - have languished as a share of GDP.

Taxes on business income poll well, but the burden ultimately falls mostly on wage-earners. If firms choose not to innovate and invest, because the expected after-tax returns aren't good enough for the risks involved, there will be little scope for sustained wage rises. New Zealand imposes some of the highest business tax rates in the OECD. Much of our government spending is, in effect, social insurance, and so I'd move quickly to reorient the tax system to better reflect that. I'd cut all personal and company income tax rates by 10 percentage points and instead put in place a 10 per cent social security tax (of the sort used across the OECD) on wages and salaries only. Closing the fiscal gaps may well require GST to be raised to 17.5 per cent.

New Zealand is the most remote country on earth, still trading mostly on our (limited) natural resources. For decades lots of our own people have been leaving, a signal that well-intentioned but misguided politicians have chosen to ignore. In countries with a fairly high level of skills (such as modern New Zealand) large scale immigration of non-citizens has rarely, if ever, been a successful way to lift productivity or GDP per capita. In remote resource-based economies such policies seem to have been directly harmful. We've tried the large scale immigration path again for the last 35 years, and it has failed. So we'll cut the non-citizen inflow sharply. Of course we should take a decent quota of refugees and welcome returning New Zealanders (and their spouses) but most

highly productive countries take only a fairly small number of non-citizen migrants each year. I'll also make temporary work visas much harder to get for all but the most highly skilled.

There will be claims that firms will struggle without migrant labour. Some may, but the overall business climate will be much more favourable. The cost of capital will be lower and the exchange rate is likely to fall as part of the necessary adjustment. Sectors that have relied largely on raw population growth will shrink, freeing up New Zealand workers. And as economic prospects durably improve there is a vast pool of New Zealanders in Australia many of whom might, over time, begin to find it attractive to move home again.

We'll make New Zealand not just a green and pleasant land but a dynamic and high-performing economy for us all once again.

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