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Treasurer, Minister of Finance, Minister for Accident Insurance, Minister of Revenue, Leader of the House

EMBARGOED TO Tuesday, 3.15 pm

Speech Notes

24 October 2000

Michael Cullen to Business - Government Forum

Could I begin by saying how much I appreciate everyone being here today. I think it is a sign of the enormous amount of goodwill that exists amongst practical people of varying views in New Zealand that we get together to talk through both where we want to go as a country, and how to get there.

I must confess to having, at times, a certain sense of frustration about the first part – where we want to go.
Frustration because I believe there exists a much greater level of consensus about that than we sometimes allow ourselves to express or even admit to. It is as if our very smallness – our air of being one large family – makes us overconcentrate on our differences at times.

Nevertheless, it would be hard to find more than a handful of New Zealanders who think seriously about our future who do not agree on some key directions. Or, to put it another way, if we were all to write down our vision statement for the next twenty years for New Zealand Inc., I am sure there would be a very high degree of commonality.

New Zealand must be in the first division of knowledge–based producers of high quality added-value goods and services in the world. We must use the new sciences and the new technologies to overcome our traditional disadvantages of size and distance.
We must produce much higher levels of human capital and retain and invest that capital in the generation of wealth.

We must, therefore, lift our performance in skills development, science and technology, research and development, design and marketing to international best practice standards. We will find much of our success in niche industries and markets, exploiting our traditional excellence at short-run production. We will need to build the infrastructure to support this new economy.

And we will need to attract new businesses from overseas into greenfields development in New Zealand, build new businesses in New Zealand, support rapid growth and reward excellence and enterprise while protecting New Zealand's unique heritage of our environment, our multicultural society, and our innate sense of fairness.

I might have lost a few of you at the last stage. But I suspect not many. The hard bit, of course, is translating such a vision into practical policies that will work. And let's be blunt; as a country we haven't done anything like as well at that as we ought to.

What I would also hope is becoming clearer is that some of the most important reasons for our relative under performance relate to deep-seated structural problems which predate not just this government but the start of the radical structural reform process in 1984 and even, in at least some respects, predate the start of our long relative decline.

So there's not a lot of point in lacerating ourselves or each other about them. We just need to get on with the job of addressing these problems better. I hope today's meeting is an important stage in getting down to the nitty gritty of how we do that.

The key policy response areas I want to touch on very briefly today are savings, investment, research and development, skills, compliance costs, and infrastructure.

First, savings. Clearly, we need to produce more of our own savings. I make no apology for emphasising that this government has put before the public a long-term structure for New Zealand Superannuation which will result in a strong public savings stance over the next twenty years or more.

But it is crucial that this is accompanied by a clear message that private savings remain essential. That means we must have an intelligent national conversation about how best to facilitate private savings in a way which is fiscally and economically sound, but produces better results than we have had hitherto.

And we have to ensure that those savings are more in a form which makes them available for investment in growth and development rather than locked up in real estate.

Which brings me to investment. A positive programme of investment attraction is crucial but government and business need to talk further about how far that programme can go in a realistic way. Interestingly, some of the successes that Jim's Ministry has had already have been less reliant on financial inducements than on clearing away obstacles and facilitating processes.

But certainly we need a much more proactive stance if our small nation is to get its fair share of the sort of investment which will create new businesses and dramatically grow existing ones.

Strengthening our capital markets has many dimensions. The takeovers code is one aspect. I firmly believe the New Zealand and Australian sharemarkets getting together is another. But let us be open to further suggestions on this matter.

With respect to research and development, we have already substantially increased state support for the private sector. The question of taxation has remained crucial.

The government is preparing a discussion paper for wider consultation which proposes that the tax laws be brought into conformity with Generally Accepted Accounting Practice in terms of what qualifies as research and development expenditure.

If a company tells its shareholders that research and development expenditure is not in effect the same as the purchase of a saleable asset, that expenditure will be able to be immediately deducted.

Currently the 'Eureka point' at which an idea is judged to have become an asset and to no longer automatically qualify for immediate R&D deductibility as a business expense is a grey area in tax law.

The definition for accountancy purposes is much clearer, and tends to occur further on in the product development process. Development expenditure not creating an asset will be immediately deductible.

The application of the same regime across both accountancy and tax treatments will bring greater clarity and should reduce compliance costs for many taxpayers.

The Government plans to introduce this as a voluntary option to ensure that no-one will be disadvantaged. Those who are happy with their current arrangements will be allowed to continue with them.

There are many other areas we need to look at. Pete Hodgson and I are both concerned that we extract better results from the CRIs in terms of the feedback effect, and in terms of the creation of new businesses and activities. We seek your input on these matters.

Research and development is intricately related, especially in our universities, to skills development.
Moves on student costs and modern apprenticeships have already been made. But it is crucial that business interacts positively with the new Tertiary Education Advisory Commission.

The mechanisms are there to produce a much more strategically focused tertiary education sector in place of the rather odd mish-mash of competition and state support that we have at present.

The other body where I know business is active in presenting its views is the Royal Commission on Genetic Modification. A balanced approach to the threats and opportunities presented by new technologies is a prime requirement by business and for economic growth in New Zealand. In particular, biotechnology under appropriate safeguards, must be part of our scientific and economic future.

On compliance costs, the government is adopting a much broader-based approach than we have seen hitherto. A Business Compliance Cost Panel comprised largely of private sector representatives is to be set up no later than 1 July next year. It will report to Paul Swain and myself on unnecessary compliance costs arising out of existing regulations.

Business test panels will be set up to assess the likely compliance costs and the workability of proposed new regulations. Paul Swain is due to report back to a Cabinet Committee by the end of next month on an implementation plan for these panels.

Finally, a few brief words on infrastructure. Our traditional approach has been ad hoc, and often overly influenced by crude political considerations.
Part of the framework for the new New Zealand Superannuation scheme will require us to develop a much more strategic approach to capital expenditure.

This will be no easy task, but one that it is important to carry out. At the same time, we need to integrate that strategic approach with better integration of infrastructure planning and development.

A good example is the recent threat to the Napier-Gisborne railway line which has opened up the whole issue of infrastructure on the East Coast. Again, it will be important here to get clear input from business on likely future needs and developments.

Most important of all is the new infrastructure.
That leads us into the area of e-commerce where Paul Swain is leading a highly focussed approach on which we need strong business buy-in to make work as well as it should.

There is, of course, much else I could talk about. But I have chosen to highlight some key areas where I believe we can achieve very significant gains which are crucial to lifting our economic performance. I look forward to our second session of discussions today and to on-going debate in these key areas of economic policy.

We need to combine two things: be clear about our vision for the future and our strategic direction. But we need also to move on to the concrete and the practical and to work on the doable. This country is full of people of goodwill who want to contribute. Let's do it.