

# **Democrats**

## **for social credit**

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## **Speech to Conference 2008**

### **DSC Deputy Leader – “on the record”**

New Zealand needs a shake-up – a real shake up.

Some New Zealanders may feel as though they have had a shake up:

- The farming community on the receiving end of an extended drought;
- Many NZers have had to deal with - floods, wind and heavy snow;
- Those investors of all ages who have been ravaged by the financial storm - which shows little sign of abating.
- The work force that has seen a growing number of businesses relocating off shore – taking their jobs with them.
- Our industries who have to deal with unstable exchange rates, high interest rates and who now have to face up to the realities of an impending Emission Trading Scheme.
- Home owners have enjoyed a climb in property values, they've increased their mortgages - to buy new vehicles, household chattels, overseas trips, or to finance a second or third property - only to see the property value erode.

I am sure the list goes on. In fact it does -

The Labour Party may feel shaken by poll floggings.

The National Party has been sleep walking - to victory, they thought. A sleep-walk? - Yes nine years in opposition with their eyes closed. They had completely lost touch with the real world.

The only time they did appear to snap out of it, was to announce another policy agreement with Labour ... but yes they may feel as though they've had a shake-up. They now realise you can possibly sleep walk to victory, but not if you talk in your sleep at conferences.

And even after all of the above – I believe New Zealand needs a real shake-up!

Let me start the process of the great New Zealand Shake-up.

\$492.6 billion! .... No, not the amount of money New Zealanders have put into KiwiSaver. Wouldn't Michael Cullen love \$492.6 billion to play around with; the funds managers and John Key's money market mates would love it too. New Zealand businesses and industry wouldn't be too happy though. – with very little of that money being spent in New Zealand and with by far the larger proportion of it invested around the world, spreading the risk... yeah right!

I digress... back to the \$492.6 billion.

This sum is the other side of the money equation... DEBT!

Let me quickly digress again ... after all I am a Social Creditor.

I did say “the other side of the money equation is debt”.

It is not an equation. An equation suggests one side equals another. In this case it doesn't matter which measures of the money supply you use - debt is greater.

It always will be so while interest is charged on debt. The other side of the coin, as far as bank debt goes, is money. Unfortunately there is no other side of the coin for interest ... there is no corresponding issue of money to balance it.

**New Zealand's total indebtedness, at the end of March 2008, was \$492.6 billion dollars. On average, that is a debt of \$115,937 per NZ man woman and child – an amount of money which should shake the foundations of any Kiwi's normal response of “she'll be right mate”.**

Especially if you multiply that by four and you find the average kiwi family share of the nation's debt is nearly \$500,000

These figures are from websites of The Reserve Bank of New Zealand and Statistics New Zealand.

Before I discuss those figures further ... just a bit of history supplied by the Waikato Times.

**Their editorial of Thursday, August 7 2008 headed “Debt and the nation's future”**

I quote from the editorial:

“Almost 12 years ago, business people at a luncheon in Hamilton were treated to an official announcement: the Government's net foreign currency debt had been wiped out. A forestry cutting rights sale had been settled a few hours earlier and Prime Minister Jim Bolger could proclaim ‘the albatross that has been around our necks for 139 years has finally been plucked and cooked’.

His speech recalled that New Zealand incurred its first net foreign currency debt (a sum of 300,000 pounds) in 1857. By 1864 the debt was over 1,000,000 pounds and climbing; the 10 million pound mark came up about 1873; by 1906 it had passed 50 million pounds.

After peaking at \$16.3 billion in 1992, the Government's net foreign currency debt rapidly succumbed to the Bolger administration's fierce determination to reduce it. This enabled the prime minister to advise his Hamilton audience: ‘The 27<sup>th</sup> of September, 1996, will go down in our economic history as the day we eliminated net foreign currency debt.’

A resolve to reduce public debt continued under Labour Finance Minister Michael Cullen's stewardship. The net public debt was wiped out in 2006. New Zealand became one of just seven OECD countries able to boast having more state assets than liabilities.

Because of the priority heaped by politicians on debt reduction over the past two decades (they became a justification for state asset sales and, under Mr Bolger, for a rundown of government services and capital investment), borrowing is regarded as something to be shunned. But it isn't necessarily bad. It depends on what money is used for. John Key has not become fiscally irresponsible simply for speaking of his intention to spend \$500 million a year more on infrastructure than planned by Labour, if he becomes prime minister, even though he would borrow to do so.”

The editorial continues by making a distinction between borrowing for current expenditure and for capital investment, and then says:

'By borrowing, repayments are shared among generations and debt redeemed over a longer period.

But from whom will Mr Key borrow? In his 1996 speech, Mr Bolger described the foreign currency component of the public debt as "dangerous", because it could rapidly escalate (along with interest repayments) if the currency depreciates.....'

New Zealanders, of all political colours, love to blame the government for pretty much all the woes in life that befall them – the loss of a rugby game, the inability to balance household budgets and the difficulties business and industry face in the market place – all the difficulties are caused by our inept representatives in parliament.

Government after government has been accused of mismanaging our economy and thus hindering any success we could have if left to our own devices. The key target has always been wasteful spending and the accumulation of debt, whether it be from internal or overseas borrowing.

Both National and Labour governments over recent decades hopped on to the debt reduction bandwagon. They used strategies which included: sharp cuts in expenditure; the sale of state assets; and increased taxes or charges. Without getting into the pros and cons of the strategy and the effect on New Zealanders and our economy – we can say that it enabled people like Jim Bolger and Michael Cullen to crow about their government's net debt position.

The Waikato Times editorial covered it well.

BUT and there is a big but, a huge but in fact. You know it! I know it! But let me say it out loud – just so the recorder can pick it up clearly.

We are still servicing those debts!

We no longer service that debt as taxpayers but instead we service the debt as consumers. One way or another we still pay. It is simply like rearranging the deck chairs on the Titanic. Perhaps I should've said the debt chairs. Either way the trip ends in disaster.

To make my point – in March 1994 Corporate overseas debt was just over \$46 billion and the NZ Government just over \$26 billion. Three years later corporate overseas debt stood at \$60 billion, NZ Government at nearly \$21 billion.

In 1994 corporate overseas debt was nearly twice the size. Today it is 11 times greater than our Government's overseas debt.

Let us go back to the \$492.6 billion.

It is made up of:

- Corporate and Government overseas debt of \$219 billion;
- Housing debt of \$158 billion;
- Business debt of \$73 billion;
- The Governments internal debt of \$30 billion; and
- Consumer debt of \$13 billion

March 2007 to 2008 saw New Zealander's debt increase by more than \$50 billion.

Shake up time!

If we just decided to do something about our \$279 billion domestic debt (June 2008) which was a \$2 billion a month increase since the end of March), what could we do?

Keeping it simple, if all our primary financial credits (our loans) originated from our own Reserve Bank rather than sourcing them from private banks, the originating loans could be issued at a cost of less than 1%.

Making some of these credits available to our Government and Local Government would reduce pressures on infrastructure development and in particular our rates and taxes.

If we on-lent the balance of these credits to the private banks – ideally all NZ owned - to lend to their customers with a margin of 3% (currently the weighted average interest margin is 2.31%), then the average interest rate charged on loans would drop from the current 9.14% to 4.00%.

Wouldn't you just say 'yay' to that?

Cutting current rates in half would see the average family saving \$11,500 a year or \$220 a week. Using current banking margins we would see even greater savings to the family budget.

Before I finish, I have to give you details, just briefly, of the other side of the coin – not the debt side but the money side.

Our debts are greater than the money supply (notes and coins, and all forms of the digital kind). Using the broadest definition of money (M3) at the end of June 2008 we are \$74 billion dollars short of being able to liquidate our debt.

Nearly 12 years ago, then Prime Minister Jim Bolger, proclaimed 'the albatross that has been around our necks for 139 years has finally been plucked and cooked'.

Well Mr Bolger, the albatross may have been plucked and cooked but it has been re-incarnated as a charging Bull Elephant. The compounding nature of this charging debt elephant has seen it shake the very financial foundations of the world.

Have New Zealanders received enough of a shake up from the on-coming debt elephant?

Do they realise that voting for Tweedle Dumb or Tweedle Dumber will not stop the charge of the debt elephant?

The vision of the debt elephant charging towards New Zealand may not be enough – a complete stomping by several debt elephants could be required.

*The Democrats for social credit* must remain staunch. If NZ is to have any chance of surviving the debt elephant our: beliefs; policies, our independent thought and approach to solving the issues that arise from the current debt money system, must always be available for the voters of New Zealand to draw on.

We must not be distracted from our core message of economic, social and environmental justice. Our alternatives need to be very clear and must not be watered down by political expediency. Pandering to the status quo is not an option.

When the debt elephant starts stomping New Zealand, our message and what makes our policies different, must be as clear to others as the charging debt elephant is to us now.

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