

New Zealand: Labour's election year budget under fire

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The 2005 New Zealand budget handed down by Finance Minister Michael Cullen last month has run into a storm of criticism from big business over the failure to deliver tax cuts. After weeks of media speculation that a record \$7 billion surplus would allow for substantial cuts to both personal income taxes and business charges, palpable outrage followed the document's failure to deliver.

The *Dominion Post* newspaper bluntly headlined its special budget report: "Is that it?" and declared that it would be "years" before personal tax thresholds would be changed. The *New Zealand Herald* derided the budget as an "anticlimax" for the "overtaxed" population. More directly to the point, Business New Zealand chief executive Phil O'Reilly lambasted the Labour government's \$1.4 billion in tax relief for business as inadequate, saying it would be largely offset by the introduction of a carbon tax.

The entire media and business campaign is being dressed up as a demand for tax cuts, not for the wealthy, but for ordinary working people. The *Dominion Post* feigned a rare concern for workers who, it claimed, were "wanting tax relief" after five years of "economic boom". The modest budget tax cuts, due in 2008, would see the "average worker" get just \$6 a week, while those earning \$60,000 get \$10 per week more.

In recent months, thousands of workers in banking, manufacturing, mining, local government and the health sector have been involved in strikes and stoppages over the declining value of real wages, not tax rates. Many working people are justifiably concerned that tax cuts will primarily benefit the wealthy while leading to a further erosion of essential

social services such as public education and health care.

In response to the media campaign, the main opposition National Party—all but written off just a few months ago—has gone on the offensive in the lead up to national elections due in September. Party leader Don Brash declared a "huge opportunity had been lost" and announced that, if elected, he would immediately bring down a mini-budget with "significant" personal tax cuts. He declared that his tax scheme would be funded by slashing \$1 billion from public sector spending and destroying thousands of public service jobs.

The budget criticism is designed to set a thoroughly right-wing agenda for the upcoming election. The aim is either to compel Labour to fall into line, or possibly to dump it after its two terms in office. As well as being under pressure over tax cuts, Labour is embroiled in scandals over the behaviour of two cabinet ministers and the state of the police emergency call system.

An opinion poll published in early June by the *National Business Review*, a big business newspaper, showed National ahead of Labour, 38 to 37 percent, for only the second time in six years. It also revealed a 3 percent increase in support for the right-wing anti-immigrant NZ First party to 12 percent, indicating that it may win the balance of power.

The Labour government led by Prime Minister Helen Clark was elected in 1999 by appealing to a groundswell of opposition to the onslaught of the previous National Party government on jobs and living standards. Once in office, Clark engaged in a careful balancing act, accommodating to the economic demands of business, while implementing minor social measures to put a "progressive" face on the government.

Until now, Labour's rule has coincided with a period of rising prosperity for the wealthy, based on strong

international commodity prices and a speculative boom on the share market. Over the last five years, the combined wealth of the rich grew faster than at any time during the National Party's rule.

Cullen's previous five budgets were marked by record surpluses, achieved by continuing attacks on public services and spending, as well as strong tax receipts produced by employment growth and taxes on consumer spending. Cullen continued the tax policies of previous governments, with the result that over the past nine years the whole tax regime has become even more weighted toward the wealthy.

While those earning more than \$70,000 have already received tax cuts of more than \$30 week, those on the bottom rate have seen, in the words of one business commentator, "a cut less than a loaf of bread".

Labour has enjoyed the overwhelming support of the ruling elite and, until recently, appeared virtually unassailable in its bid for a record third term in office.

Before the budget, however, the media began to point to an economic slowdown later this year—growth is expected to fall from 4.2 percent in 2004-05 to 2.5 percent over the next two years. Cullen produced a cautious budget designed to appease international investors and credit agencies. An OECD report had warned that further "fiscal stimulus"—either by tax cuts or increased government spending—would put any possibility of a "soft landing" for the economy at risk and result in higher interest rates.

Cullen's budget was decidedly pro-business. It continued to keep a tight rein on public spending in order to generate a large budget surplus. The police are to receive an extra \$73.6 million, taking total spending to over \$1 billion for the first time. The largest new item, an extra \$4 billion to the health sector over the next four years, will barely cover increasing costs, including a recent pay settlement for nurses, let alone reduce expanding hospital waiting lists.

Two other items, purportedly introduced to assist those battling to save for a house or their retirement, amount to little more than disguised business subsidies. A workplace savings scheme will be established with a \$1,000 government bonus to encourage people to save for retirement. Workers will be automatically enrolled when they start a new job and will pay 4 percent of their wages into the scheme. There is no requirement on employers to contribute.

The government will also make available grants of up to \$5,000 for first home deposits—a drop in the bucket for many thousands of young people confronting spiralling property prices.

The hostile response to the budget in ruling circles is a sign that, whichever party or parties win office at the forthcoming election; the ground is being prepared for a political shift. The stance that has sustained Labour since 1999 is clearly no longer acceptable and a fresh onslaught on jobs, social conditions, living standards and basic democratic rights is being demanded.



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