New Zealand budget imposes austerity measures as recession deepens

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New Zealand's National-led government delivered its first budget on May 28 against the backdrop of a deepening recession. Prime Minister John Key's right-wing austerity measures are designed to placate foreign investors and big business and to impose the burden of the economic crisis on the working class.

The government's immediate concern was to ward off a downgrade to the country's credit rating, threatened in January by the global financial agency Standard & Poor's. Finance Minister Bill English outlined plans to "balance the government's books" by cutting new operating spending to $NZ1.45 billion ($US.93)—almost half what it averaged over the past five years. This will be further reduced to $NZ1.1 billion in the years ahead. The government also cancelled tax cuts, promised during the 2008 elections and planned for 2010 and 2011.

English announced that the government would save $500 million annually over the next four years by "reducing low priority spending". During its campaign for last November's election, National said it would "cap" the number of public sector employees without cutting jobs. Since the start of the year, however, around 1,470 public sector workers have been made redundant, affecting at least nine departments plus Television NZ. English warned that the public sector "must consider how it will adapt to tighter budgets and smaller or no increases".

After 15 years of surpluses, the government's books are forecast to remain in the red for the next decade. The ten months to the end of April saw a deficit of $7.69 billion, driven by a drop in tax revenue and losses on investment funds. Over the next four years, Treasury predicts that the government will borrow an extra $34 billion, bringing debt to levels not seen since the 1990s.

New Zealand's total debt, which stands at 93 percent of GDP, will balloon as exports continue to fall. A recent survey by the Manufacturers and Exporters Association found that total farming and manufacturing sales for April had dropped 59 percent compared with the same time last year, with chief executive John Walley warning that "We have not yet seen the bottom".

After more than a year of recession, Treasury's "downside" scenario, detailed in the budget, forecasts a further GDP contraction of 2.8 percent over the next 12 months and a 9.5 per cent unemployment rate by 2011.

A total of 24,000 jobs were eliminated during the March quarter—the biggest drop in 20 years. Official unemployment increased by 7,000 to reach a six-year-high of 110,000 or 5 percent. The number of underemployed—those working part-time who would rather work longer hours—has risen from 82,500 people a year ago to 99,800.

After nine years of Labour government from 1999 to 2008, unemployment benefits remain miserably low, having barely kept pace with official inflation since they were viciously cut back by a previous National government in 1991. Payments under the government's ReStart scheme, ostensibly created to help those made redundant as a result of the recession, have so far been granted to a mere 1,400 people—a tiny fraction of the roughly 38,000 who have become unemployed since the start of 2008.

In the budget, the government suspended contributions to the NZ Superannuation Fund and ruled out making payments while the government is running a deficit, thereby threatening the retirement provisions for coming generations of workers.

Exposed to a global share and bond market that remains highly volatile, the fund has been losing money. Economist Gareth Morgan predicts that by 2040, it will only pay for 7 percent of total superannuation—an estimate that assumes that the government will resume payments and that the fund loses no more money as a result of the recession.

Business lobbyists called on the Key government to go further and use the recession to follow the Australian Labor government's recent move to raise the pension age from 65 to 67. In an editorial titled "Time to face up to looming pension crisis", the *New Zealand Herald* described this as "the most realistic option" for reducing "the superannuation load".

In response to a deep crisis in the health system, the budget included an extra $750 million over the next year—the same increase as in previous budgets. This will do nothing to stem the decades-long deterioration in health services, let alone provide for the inevitable increase in health problems as a result of the recession.

Fifteen of the country's 21 District Health Boards (DHBs) are running a deficit and seven are having their spending reviewed by the Crown Health Financing Agency. Health Minister Tony Ryall has instructed the Otago and Southland DHBs to cut their budgets for next year by 5 percent.

Operational funding for public schools was increased by just $80 million for the next year, barely enough to cover inflation. The government will cut its school staffing budget by $45 million in 2011 and $50 million in 2012—roughly equivalent to 700 teachers' salaries. The budget cuts 80 percent of funding for Adult and Community Education (ACE) courses, which enrol over 200,000 people every year.

From 2011, the government will "save" a total of more than $500 million by cancelling inflation-linked funding increases for tertiary education. It also cut eligibility for the Training Incentive Allowance, which pays course fees for single parents and disabled persons, so that some of the poorest people in society will no longer have access to funding for a university education.

The only substantial increases in the budget were for "law and order", revealing the government's real priorities: increased repression to deal with social unrest. This included $162.5 million extra over four years to recruit another 600 police officers, half of whom will be deployed in South Auckland, one of the country's poorest suburban areas. An extra $10 million will go toward arming police with tasers and a further $385.4 million on adding nearly 1,000 extra beds to five prisons.

The Key government is utilising the global recession to mount a wholesale attack on the social position of working people, with the full collaboration of the Labour Party and unions, which are playing the central role in stifling opposition.

Labour's response to the budget consisted of vague noises about it "not setting out a coherent plan to keep Kiwis in work". The party's main criticism centred on National's "broken promises" over tax cuts--which were in fact designed to advantage the wealthy at the expense of working people.

During its nine years in office, Labour presided over a major increase in social inequality, while its own budgets carried forward the dictates of big business by returning record surpluses and restricting public spending. Labour maintained a poverty-level minimum wage and refused to raise unemployment benefits or pensions. Families were forced to take on debt in order to survive: between 1999 and 2007, average household indebtedness rose from 100 percent of disposable income to 160 percent.

The trade unions also demonstrated their readiness to work in lock-step with the government and employers. The Council of Trade Unions (CTU) declared that "this was always going to be a tough budget requiring difficult choices". The CTU's sole criticism was that the budget "could have done more" to boost employment and industry training and "scale up advice and support for those laid off".

This response is in line with the unions' role since the onset of the recession in blocking any fight against the destruction of jobs and conditions. They have ensured "orderly" redundancies, while helping employers extract concessions from workers. This has included support for a nine-day working fortnight scheme, which was agreed to at the government's so-called Job Summit in February.

The Public Service Association has accepted the mounting state sector job cuts without the slightest resistance, calling for the nine-day fortnight scheme to be imposed on its members and criticising the government for restricting it to the private sector.

National's budget, which passed through parliament without any serious opposition, is a foretaste of much deeper cuts to social services and living standards. While praising the budget as a good "first step," big business called for more sweeping measures. The Business Roundtable criticised the cancellation of tax cuts and urged the government to make "hard political choices" regarding "the superannuation eligibility age, privatisation of commercial businesses, a freer labour market and welfare reform".