New Zealand government imposes economic austerity measures

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8 April 2010

Like its counterparts around the world, the conservative National government in New Zealand is imposing an economic austerity program in response to the new phase of the global economic crisis. After most of the world's major economies bailed out their banks and implemented fiscal stimulus programs, sovereign debt mounted—and now must be paid for. In New Zealand, the government is slashing public spending and introducing regressive new taxation measures in order to make the working class pay for the downturn, while engineering a further transfer of wealth from the poor to the rich.

Prime Minister John Key's response to the 2008 global financial crash included a $NZ800 million guarantee to the retail banks, aimed at preventing a run by international depositors, and a number of minor infrastructure projects. His government, however, did not enact fiscal stimulus measures like those in many other countries. "We don't tell New Zealanders we can stop the global recession, because we can't," Key told an admiring *Wall Street Journal* in March last year. He warned of the risks involved in the various multi-billion dollar stimulus spending programs in Australia and elsewhere: "You've saddled future generations with an enormous amount of debt that then they have to repay."

As a result, the New Zealand economy plunged into recession earlier than many others. Despite the absence of a costly stimulus program, the financial markets are nevertheless deeply concerned over New Zealand's long-term entrenched indebtedness. An OECD report last year noted that the economy was among the most debt-laden of all member countries, and declared that "persistent, large" current account deficits and high external debt rendered the economy "especially vulnerable" to ongoing financial shocks. A high proportion of the debt was due to the activities of the banks, which had financed a housing bubble with substantial overseas borrowings.

The situation has deteriorated since the OECD made these warnings. Reserve Bank figures issued in December showed that between March 2007 and September 2009, New Zealand's total overseas liabilities had increased from 117.3 percent of gross domestic product (GDP) to 133.6 percent. Corporate sector debt increased from 108.2 percent of GDP to 120.7 percent, and official government debt rose from 9.1 percent of GDP to 12.9 percent across the period. This was largely due to a $3 billion reduction in tax revenue caused by reduced economic activity and tax cuts made both by the outgoing Labour government and the incoming National administration. With the government currently borrowing $NZ250 million each week just to maintain its accounts, annual debt servicing costs are projected to nearly double to $4.6 billion within four years.

In response, the Key government has initiated a series of austerity measures. In a major policy speech in February, the prime minister foreshadowed a significant increase in the Goods and Services tax (GST) from 12.5 to 15 percent, accompanied by reductions in top personal and business taxes. This highly regressive measure, which is likely to be introduced in the May budget, is aimed directly against the living standards of the working class, and will hit pensioners and welfare recipients particularly hard.

In a series of further measures announced last week, the government has established draconian new rules for those on unemployment and sickness benefits, and a new requirement to force sole parents to seek full time work once their child turns six years of age.

Hardly any area of social life remains untouched. Over recent months major expenditure cuts have been announced across government departments, as well as amalgamations of some ministries. There have been cutbacks to pensioners' travel entitlements, restrictions on student places in tertiary education, cost-cutting in the public broadcasting system, and legislation intended to open up the accident compensation scheme (ACC) to rising levies, cuts to entitlements, and possible privatisation.

All these measures have been accompanied by recurring pronouncements in the media that ordinary people have been "living beyond their means". In the arcane language of a Reserve Bank Fiscal Stability Report, issued in November, "large and persistent dissaving by the household sector" has worsened the national debt. The unstated conclusion is that the population's living standards and levels of consumption will have to be lowered to resolve the problem.

Job cuts, high unemployment, and virtually zero wage growth continue to afflict the working class. The government and media have repeatedly claimed that the country's economy has "climbed out" of the recession. Statistics NZ last week released data showing GDP growth of 0.8 percent in the December quarter, following rises of 0.3 percent and 0.2 percent in the previous two quarters. Before this the economy suffered five consecutive quarters of contracting economic activity.

However, the return to positive GDP growth has not improved the lives of most ordinary working people. Figures released in February showed an unemployment rate of 7.3 percent in the December quarter, the highest level since 1999. Most affected are young workers, with an official unemployment rate of 18.4 percent in the 15–24 age group. For Maori, it is 15.4 percent and for those of Pacific descent, 14 percent.

Wages are still depressed. In the past year, wage and salary earners' combined income grew by a nominal average of just 1.9 percent—reflecting layoffs and shorter hours. Pay rises were the exception, not the rule. The government has already announced a pay freeze throughout the public service for this year and into the immediate future.

The New Zealand economy remains precariously balanced. Not only heavily reliant on the inflow of foreign capital, it is increasingly vulnerable to any potential downturn in China. China recently overtook the United States as New Zealand's second largest export market, after Australia. Shipments to China surged 37 percent in the year ended February 28—based on higher demand for milk powder, wood, and wool—while sales to the US fell 22 per cent. China has provided a vital boost for New Zealand's exports, which comprise 30 percent of the country's GDP.

Stephen Toplis, head of research at Bank of New Zealand, told *Bloomberg* last month: "Just imagine how bad it would look like if China fell off the rails. Don't forget Australia is itself heavily dependent on China. So if China went down the gurgler it would not only take [New Zealand's] direct exports down, it would take the indirect exports [to Australia] as well."

The opposition Labour Party and the trade unions have been entirely complicit in the National government's attacks on the working class.

From the outset, Key's strategy rested on forming an alliance with the union bureaucracy, initiated with a "Jobs Summit" early last year that was primarily aimed at cutting jobs and lowering wages in the public sector. The Council of Trade Unions has ensured the orderly closure of plants, the introduction of shorter work weeks, and the suppression of any worker resistance. Despite the onslaught on jobs, wages and conditions, in 2009 there were just 18 recorded strikes, involving 2,010 workers and 1,382 person-days of work lost—a historic low.

The opposition Labour Party shares the same basic agenda as the National government—making working people pay for the economic crisis. The sole purpose of the party's rediscovery of its "blue-collar" roots, once it left office, has been to divert growing popular anger into safe, parliamentary channels. At the height of the recession, Labour was at pains to reassure big business of its loyalty, announcing its own plans to guarantee the banks and finance companies and provide whatever stimulus they needed.

Labour has demagogically declared that the economic recovery must be "for the many, not the few". Leader Phil Goff acknowledged the social crisis in a keynote speech in January, declaring that the "gap between those at the top and most New Zealanders has grown too large." His solution, however, was to declare that Labour would limit the pay of state sector CEOs, which, he explained, was in line with the policy of the British Conservative Party. He also raised the right-wing nostrum of "personal responsibility" signalling his party's agreement with further inroads into welfare payments.