# New Zealand government brings down austerity budget

John Braddock
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The New Zealand government's 2010 budget, announced on May 20, has instituted a new round of attacks on public services and living standards, while engineering a tax windfall for the wealthy. The budget, which parallels the austerity measures being carried out in Europe and elsewhere, is further evidence that in every country working people are being forced to pay for the bailouts of the banks and financial institutions.

Elected in November 2008, National Party Prime Minister John Key's response to the 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. However, because of New Zealand's financial and business ties with Australia—all four major banks are Australian-owned—growing trading links with China and the return of high commodity prices, its relatively protected position helped the government avoid the huge financial rescue measures instituted in many other countries.

Nevertheless, after the world's major economies propped up their banks and implemented stimulus programs, sovereign debt mounted internationally—and now must be paid for on a global basis. New Zealand has not escaped this agenda. International agencies have warned that the economy is heavily debt-laden and vulnerable to any financial turbulence.

Figures released with the budget reveal the annual deficit is running at $8.6 billion, or 4.2 percent of gross domestic product (GDP). Despite government boasts that the figure is lower than many other countries, it is well above the maximum of 3 percent of GDP that eurozone countries and Britain have imposed to meet European Union "stability" criteria.

Total public and private debt in New Zealand stands at $168 billion, equivalent to 90 percent of the country's annual output, one of the highest foreign liability positions in the world. Current projections predict net government debt and the balance of payments deficit deteriorating until 2014, the former blowing out from 19.6 percent of GDP to 27 percent, the latter from 4.4 percent to 7.3 percent of GDP.

The International Monetary Fund (IMF) recently issued a blunt message to the government to cut spending on welfare, student loans and doctors' visits in order to get its books back into surplus. The IMF noted that the sharp increase in forecast public spending between now and 2015 was a "structural" issue of major concern. The agency demanded a return to budget surpluses by 2014, saying this was necessary to respond to any future crisis.

The budget accommodated these instructions, starting with a savage increase in the goods and services tax (GST) from 12.5 to 15 percent. This is one of the highest consumption tax rates among OECD countries and, because it provides for no exemptions, among the most onerous. The regressive impost particularly hits working people, welfare beneficiaries and pensioners who are already struggling to meet day-to-day living costs.

Income tax cuts of $14.3 billion over four years, which were promoted as offsetting the GST increase, are massively weighted in favour of the rich. The top income tax rate will be cut from 38 to 33 cents, giving the wealthiest 1 percent of income earners 12 times the reduction of the average earner. For a worker on the average wage, the cut is under $30 a week while someone on $120,000 per year will be $90 a week better off. Prime Minister Key, with a personal fortune estimated at $50 million, will take home $350 a week extra on his parliamentary salary. Company tax is cut from 30 to 28 percent, costing $1.1 billion over 4 years, and is timed to come into effect a year before similar reductions planned in Australia.

In a pre-budget announcement, Key shamelessly defended the budget, provocatively telling ordinary people not to be "envious" of the tax breaks for higher earners. He declared that the wealthy were essential for "the core and critical categories of our economy". This is under conditions where, once inflation and a rise in early childhood education fees are taken into account, the average family with two children will be an estimated $55 a week worse off, while an individual on an average income will lose $30 a week. Even according to Treasury estimates, the GST hike will help boost inflation to 5.9 percent next year, the highest rate in a decade.

Health expenditure in the budget, at $2.1 billion, provides less new money than in previous years. A $512 million increase will barely cover inflation and population growth and is $100 million less than needed to maintain services at the existing level. A raft of new cuts in education was announced. The early childhood sector received a brutal blow, with nearly half the country's kindergartens facing fee increases of up to $42 per child a week, affecting some 100,000 children. In the tertiary education sector, the government ditched the "fees maxima" policy, which sets a cap on university and polytechnic fees. Institutions can raise course fees by up to 4 percent, alongside draconian new restrictions on enrolments and student loans.

Other measures include further clampdowns on welfare. The Working for Families package sees rule changes to remove "anomalies" that currently allow so-called wealthier families to claim benefits. The real agenda is cost-cutting, with the government expecting to save $65 million a year, while attacks on poorer welfare recipients proceed apace. Previous announcements had singled out sole parents and long-term unemployed for increasingly punitive treatment.

The budget received a warm reception from big business spokesmen and the media. The *Dominion Post* set the tone with headlines proclaiming it an "Old fashioned vote winner," while noting that it would help quieten "the growing chorus of business critics" that had accused the government of "not moving far enough or fast enough on economic reform".

The prime minister assured business interests that further pro-market "reforms" are on the way, with a post-budget announcement that another round of state asset sales is under consideration, beginning with a sale of Kiwibank. An approving *New Zealand Herald* editorial noted that 18 state-owned enterprises remain in government hands, including electricity generation and coal mining, which offer "many candidates" for similar treatment.

The opposition Labour Party and the trade unions criticised the budget as "fundamentally unfair". The National Party-led coalition government, however, is implementing an agenda begun under Labour in the 1980s and continued by administrations of all stripes. Current Labour leader Phil Goff was a member of the 1986 Labour cabinet that first introduced the GST, then three years later lifted it from 10 to 12.5 percent, while simultaneously making cuts to the top personal tax rate and company tax.

Goff has explicitly rejected any commitment to rescind the GST increase or other tax changes should Labour be returned to government. Labour has dropped a phony "Axe the Tax" campaign it ran briefly when the GST rise was first mooted earlier this year, and has instead called only for the tax's removal from fresh fruit and vegetables.

Labour, with the support of the unions, has been central to the attacks on jobs and living standards undertaken over the past three decades. If Labour were in office today, it would, at the behest of the international financiers and money markets, be pursuing exactly the same agenda as the Nationals.