New Zealand government outlines spending cuts, asset sales

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11 February 2011

In a "state of the nation" speech late last month, New Zealand Prime Minister John Key announced that his conservative National Party government would once again slash new operating spending in this year's budget—from an already grossly inadequate $NZ1.1 billion to as little as $800 million.

Key also outlined National's plan, if it won the next election in November, to raise up to $10 billion by selling minority stakes in the state-owned power companies Meridian, Genesis, and Mighty River Power, and the state-owned coal producer Solid Energy. The government will also reduce its stake in the national airline Air New Zealand from 76 to 51 percent.

Like its counterparts around the world, the Key government is forcing the working class to pay for the global economic crisis by imposing austerity measures, including cuts to healthcare and education, attacks on welfare beneficiaries and an increase in the consumption tax. It has also introduced draconian labour laws to drive down wages and make businesses more profitable.

The spending cuts and partial privatisations aim to reduce government debt and ward off a threatened credit rating downgrade by the rating agency Standard & Poor's. Key said the government's current borrowing of "$300 million a week on average to pay the bills" was "unaffordable". He declared that the cuts would restore the government's accounts to surplus by 2014-2015, a year earlier than previously projected and in line with a demand issued last year by the International Monetary Fund.

While government debt is relatively modest, at 18.8 percent of gross domestic product, total public and private debt stands at $162 billion, equivalent to 85 percent of GDP. This is one of the highest foreign liability positions in the world. If debt were not reduced, Key warned, the country faced "the risk of a protracted recession. ... To put it in context, the only other developed countries with a foreign debt the size of ours are Greece, Portugal, Spain and Ireland. That is very uneasy company indeed."

Speaking to the *New Zealand Herald*, Key dismissed opposition to asset sales: "I know the polling indicates people don't necessarily like the concept, but do they like the concept of interest rates going up? Do they like the concept of the economy all of a sudden being controlled by bailout?"

In his speech Key presented the privatisations as an opportunity for "mum and dad investors" to put "their savings into large and proven companies". In reality, the asset sell-off is intended as a windfall for big business and the super-rich. Key admitted there was "a strong appetite" from "managed funds"—i.e., investment banks and finance companies—and Maori tribal-based businesses for a stake in the companies.

Despite being publicly owned, the power and coal companies have been run as profitable businesses under the State Owned Enterprise (SOE) model, introduced by David Lange's Labour government in 1986 as a halfway-house to privatisation. Solid Energy has benefited from booming coal markets in China and India, returning a profit of $68 million last year.

Public and private power companies also rake in annual profits in the tens and hundreds of millions at the expense of working people. Between 2002 and 2010, household electricity bills increased by an average of 4.7 percent a year, over and above the rate of inflation, according to Consumer New Zealand. Partial privatisation will bring pressure from investors to deliver higher profits, driving prices up further.

The government's plan to reduce new spending to $800 million will have a devastating impact on basic services, which are already starved of funds. A $512 million boost to health spending in last year's Budget barely covered inflation and population growth, and was $100 million less than needed to maintain services at the existing level. District Health Boards have frozen wages, reduced services and cut hospital staff to lower their deficits.

Teachers' salaries have been effectively frozen, and the government has insisted that there is "no money" to repair over 150 leaky public school buildings. A $449 million cut to early childhood education, which came into effect this month, will force 2,249 preschools to raise fees, replace qualified teachers with unqualified staff, and cut spending.

Despite propaganda from the government and media that the economy is in "recovery", growth remained flat throughout 2010, and the economy shrank by 0.2 percent in the September quarter. Official unemployment grew by 8,000 to 158,000 people in the December quarter, pushing the unemployment rate from 6.4 to 6.8 percent. The figures are worst for young people, with one in four 15- to 19-year-olds unemployed. The jump prompted warnings from some economists that the economy may have again contracted, pushing the country back into recession.

Low-paid workers are being driven ever deeper into poverty. Wage increases averaged just 1.7 percent last year—well below the 4 percent rate of inflation.

In his speech, Key boasted there were "great opportunities" for exporters because "New Zealand is a food-producing country and world... prices for dairy, forestry, meat and other commodities are high". On February 2, average prices in the dairy giant Fonterra's global online auction reached their highest level since July 2008, at $US4,246 per tonne—an increase of 21 percent since mid-November.

Key neglected to mention that food prices for ordinary people have already increased by more than 14 percent over the past three years, largely as a result of speculation on global markets and the government's increase in the regressive Goods and Services Tax (GST) from 12.5 to 15 percent. In 2010 alone, fruit and vegetable prices increased by 11.9 percent, butter rose a staggering 63 percent, cheese 24 percent and milk 14 percent.

The government has made no serious attempt to counter the disastrous impact of the economic crisis by funding jobs or raising wages and benefits. It is thoroughly indifferent to the plight of the poor. Speaking to TVNZ, Social Development Minister Paula Bennett brushed aside the rise in unemployment, declaring patronisingly: "There are jobs out there... You will only find a job if you're looking for one; they aren't going to land in your lap."

As part of its "belt-tightening", the government has already put in place policies to push the unemployed, single parents and sickness beneficiaries off welfare. Asked if more cuts to welfare were being planned, Key told TVNZ that there were "too many" people receiving benefits. He said the government would look at recommendations from its Welfare Working Group, due to report back this month, on how to reduce the numbers.

The government's moves have been endorsed by the corporate media. The *New Zealand Herald* described the planned asset sell-off as a "courageous and well directed" means of bringing "much-needed new life to the stock market". The paper applauded the government's "determined assault on public debt" through spending cuts.

The Labour Party has postured as an opponent of the measures. Its leader Phil Goff told Radio New Zealand that partial privatisations would bring "higher power prices... [and] foreign ownership" . He denounced the moves to "[cut] basic services in health and education to pay for tax cuts for the wealthy".

This is sheer chicanery. Labour fully agrees that the working class must pay for the economic downturn. If elected, the party has said it would not reverse the GST increase and would run a "fiscally responsible" budget. Its promise to remove tax on the first $5,000 of income earned would give workers a mere $10 extra a week.

It was the Labour government of David Lange—in which Goff was a cabinet minister—that carried out the first wave of privatisations and "free market" reforms in the late 1980s. Public assets—including telecommunications, railways and banks—were sold at bargain prices to a handful of businessmen, who reaped immense profits. British social researcher Richard Wilkinson told the *Sunday Star-Times* last month that inequality rose faster in New Zealand in the late 1980s than in any other country.

Were it in power today, Labour would pursue the same policies of austerity and privatisation demanded by big business. This is exactly what social democratic governments are doing in Greece, Spain, Australia and elsewhere.