Deep budget cuts ahead of New Zealand election

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The budget handed down on May 19 by the conservative National Party government of Prime Minister John Key contained a raft of cutbacks aimed at making the working class pay for the global economic crisis—an agenda that will intensify after elections in November.

Since New Zealand's economy went into recession in 2008, the Key government, like its counterparts around the world, has carried out a program of austerity to appease international investors. This has included cuts to healthcare and education, attacks on welfare beneficiaries and an increase in the consumption tax. The government has also introduced draconian labour laws to drive down wages and make businesses more profitable.

This year's so-called "zero budget" deepens these attacks. It is the first budget in two decades to deliver no overall increase in spending. It outlined $NZ1.2 billion ($US0.97 billion) in cuts over the next four years, particularly to welfare, retirement funds and the public service. The National government plans to raise up to $7 billion—and provide a windfall for corporate investors—by selling minority stakes in three state-owned power companies and the state-owned coal producer Solid Energy. It will also reduce its stake in the national airline Air New Zealand from 76 to 51 percent.

The budget's immediate aim was to ward off a downgrade of New Zealand's credit rating by international ratings agency Standard & Poor's. The country's economy, which relies heavily on agricultural exports, is highly vulnerable to international shocks. Net government debt is expected to reach 26.2 percent of GDP by July, while total public and private debt stands at 78.6 percent of GDP.

The government's operating deficit is expected to reach a record $NZ16.7 billion or 8.4 percent of GDP this year, due to the combined impact of flat economic growth and two earthquakes that have devastated Christchurch, New Zealand's second largest city. Bank of New Zealand economist Stephen Toplis told *BusinessDay* that the economy was "approaching a position which is very, very similar to nation states that have been dealt harshly to by international investors"—a reference to countries such as Greece, Ireland and Portugal.

To placate the fears of New Zealand's international creditors, Finance Minister Bill English pledged that the cutbacks in the budget would ensure the government returned to surplus by 2014-2015—as was demanded by the International Monetary Fund last year.

At the same time, the budget was carefully crafted with an eye to the coming election. Key told TVNZ that the cuts were "modest changes" and that they would be introduced over "a long period". Asset sales will not begin until next year. Moving into election mode, Key also trumpeted Treasury forecasts—based on extremely optimistic predictions of economic growth internationally—that 170,000 new jobs will be created over the next four years and wages will rise 4 percent a year for the next two years, compared with 1.7 percent last year.

The National Party is currently registering over 50 percent support in opinion polls, well ahead of the opposition Labour Party's 30 percent, and appears likely to return to power with a clear majority. The Key government and its corporate backers were acutely conscious that carrying out major cutbacks this year could provoke a popular backlash—potentially resulting in a hung parliament and an unstable minority government.

The budget measures will nevertheless severely impact on the living standards of the working class, which is already enduring stagnant wages, significant unemployment and dysfunctional social services.

The government will save $448 million over four years by cutting Working for Families (WFF) tax credits to hundreds of thousands of working parents. According to the *New Zealand Herald*, a couple with two children, working 60 hours a week between them on the median wage of $20 an hour, will see their support cut by $33 a week by 2018.

From July, the government will reduce its contribution to “KiwiSaver” retirement savings plans from $1.00 to just 50 cents for every dollar paid by members. From 2013, the 1.7 million workers who are members of the scheme will be forced to increase their contributions from 2 percent to 3 percent to make up the shortfall. Minimum employer contributions will also rise from 2 to 3 percent, and will no longer be tax exempt. Inevitably, employers will extract these additional costs from workers’ salaries.

From next year, the government will withdraw $650 million in contributions to public sector workers’ retirement plans—meaning that these will have to be funded through already stretched departmental budgets. Another $330 million will be cut from so-called “back office” operations in 31 government agencies. This will lead to hundreds more layoffs across the public service, which has already shed more than 2,000 jobs over the past two years.

In the health sector, new operating spending has been reduced to just $425 million per year for the next four years. According to the Council of Trade Unions, this is about $139 million less than what is needed to cover inflation, population growth and ageing.

Operations funding for schools will increase by just 2.9 percent—well below the inflation rate, which is currently 4.5 percent and rising. Funding for universities and polytechnics will increase by less than half the inflation rate. Institutions will respond by further raising fees and capping enrolments. The budget also restricted access to student loans for people over 55 years old, and for about 100,000 part-time students.

Epitomising the anti-working class character of the budget, the Key government allocated just $8.8 billion toward rebuilding the earthquake-devastated city of Christchurch, less than half the estimated $20 billion cost of reconstruction. Three months after the disaster, thousands of people remain without adequate housing and services such as sewage.

Big business and the corporate media generally praised the budget, while insisting that the government deepen its assault on essential social services. The May 20 editorial of the *New Zealand Herald* stated that, in the absence of an economic recovery, “this government or the next will need the courage to make bolder cuts”. In a press statement, the Business Roundtable welcomed the cuts but said the government could “have gone further” by reducing the number of people receiving welfare payments and by “rein[ing] in the costs” of pensions.

The government responded by pledging further cuts and asset sales once the election is out of the way. English told Radio New Zealand last Friday: “The government really is only just starting now... to tighten expenditure. So over the next four or five years that’s going to be a strong focus in the public service.”

For its part, the opposition Labour Party is cynically posturing as an opponent of asset sales and the cuts to retirement plans and welfare. The reality is that Labour is entirely beholden to the same big business interests as the National government.

National’s lead in the polls above all reflects the widespread disgust in the working class with Labour. It was the 1980s Labour government of David Lange which launched the country’s first round of “free market” reforms, including the privatisation of key industries and cutting taxes for the rich, leading to an unprecedented increase in social inequality. Between 1999 and 2008, Helen Clark’s Labour government returned record budget surpluses by keeping a tight lid on spending on health, education and welfare. It presided over one of the highest rates of social inequality, and highest levels of outright poverty, in the OECD.

Speaking to TVNZ last Sunday, Labour leader Phil Goff made clear his agreement with the assault on working class living standards. “We can’t keep adding to the debt,” he declared, “and that means I can’t promise to put everything back that National has cut.” Labour’s finance spokesman, David Cunliffe, told Radio NZ last Friday that “under any government there would have to be cuts.”