Deteriorating economy and deepening austerity in New Zealand

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The National Party-led government, which was re-elected last November, has intensified its assault on the New Zealand working class. The administration is imposing a sweeping program of privatisation, job cuts and attacks on welfare and education that was concealed throughout the election and for which nobody voted.

In February, Prime Minister John Key announced that up to 305 jobs would go at the Ministry of Foreign Affairs and Trade. Hundreds more layoffs are expected in a merger of four government departments to create a "super-Ministry" of Business, Innovation and Employment. Since 2008, the government, assisted by the unions, has cut more than 2,500 public sector jobs. Three power companies and Air New Zealand are in the process of being privatised. A discussion is underway within the government on establishing US-style "charter schools" to expand private involvement in education and break down teachers' conditions.

The government is also backing an employer offensive to restructure workplaces, resulting in lockouts and strikes in the meat industry, the Ports of Auckland and the aged care sector. Thousands of workers have been thrust into protracted struggles to defend their jobs, working conditions and living standards.

Behind the government's assault on living standards lies a deteriorating economic situation. Claims that the country escaped the worst of the 2008 global financial meltdown have proven entirely false. The government is warning that without harsh austerity measures, New Zealand faces the "Greek road" of potential bankruptcy.

Until recently, concern over the country's external debt had concentrated mainly on the high levels of private sector borrowing. However, Treasury figures released earlier this month showed that, due to "lagging" tax revenue, the government's budget deficit was $NZ1.2 billion worse than forecast at the time of the election. In the eight months to February, the operating deficit was $8.8 billion, even though government spending was $1.4 billion less than anticipated. The estimated cost of the 2010 and 2011 Christchurch earthquakes had also blown out by $500 million.

Key and Finance Minister Bill English emphasised that the changed fiscal position would not alter the government's intention of returning the budget to surplus by 2014-15. English warned of tougher measures, saying the deteriorating figures reinforced the need to keep spending "disciplined."

Writing in the *New Zealand Herald* on April 1, economist Bernard Hickey said the financial indicators revealed a "massive reversal" in a decade-long trend of improvement in the country's public debt position.

Between 1995 and 2008 there had been a decline, relative to gross domestic product (GDP), in the levels of sovereign-issued debt and net core government debt. The former had dropped from 50 percent of GDP to 18 percent, and the latter from 43 percent to 8 percent. Since the eruption of the global financial crisis in 2008, however, debt figures had risen sharply. Gross debt was now $76 billion, or 37.2 percent of GDP, and net core debt was $49 billion, or 24 percent of GDP. Government borrowing was 15 percent of GDP, increasingly sourced from China.

Successive National and Labour governments had surpluses from 1995 to 2008, but the budget shifted into deficit in 2008-9. Hickey wrote that the reversal could be traced directly to National's first-term tax cuts, which benefited the "already-wealthy part of the population" by cutting their personal tax rates from 39 to 33 cents in the dollar.

The tax was offset by an increase in the regressive Goods and Services Tax from 12.5 to 15 percent. However, falling living standards and consumption have meant the shortfall has not been made up. The tax-to-GDP ratio fell from 34 percent in late 2008 to 29 percent last year, while tax from individual incomes dropped from 32 to 24 percent. Corporate tax revenue fell $193 million below forecast during the past eight months.

Hickey is one of a number of commentators pressuring the government to slash public spending to address the debt. He targeted interest-free student loans and the Working for Families welfare package as areas that are "deepening budget deficits."

Over the past four years, the economy, which was already in recession when the 2008 crisis began, has shrunk by 0.1 percent. Manufacturing and construction have been declining since the end of 2005, with the slump accelerating from 2008. Construction activity fell by 18.2 percent and manufacturing by 16.7 percent over the past six years. Construction has been heavily affected by the downturn in housing, with the number of consents issued for dwellings almost halving from 26,000 in 2005 to 13,700 last year.

Only agriculture has grown, due to booming commodity prices. However, the economy's vulnerability to global fluctuations was underlined last week when dairy products experienced their biggest price fall since July 2010. Fonterra, the country's largest exporter, saw prices slashed by 10 percent to below the 10-year average, because of slowing demand in China, New Zealand's second largest export market. Further price falls are forecast, with flow-on losses to the economy predicted to reach $1 billion.

The working class is paying for the deepening crisis. While the wealthy benefited enormously from tax cuts and previous waves of privatisation, working people are seeing their jobs, public services and living standards threatened. Waikato University social scientist Professor Darrin Hodgetts noted last week that poverty was "growing at three times the OECD average."

According to the OECD, at least one in five New Zealand children lives in severe or significant hardship, with at least one in four living below the semi-official poverty line. The Graduate Longitudinal Study NZ, commissioned by the universities in 2011 and released this month, shows that a quarter of tertiary students are in financial distress and living in poverty. One in six does not have sufficient money for basic accommodation, clothing and food.

The country's average weekly wage, in NZ dollar terms, is now about $250 below Australia's, while official unemployment stands at 6.3 percent. Over the past six years, there has been a 160,000 net migration to Australia, with 1,000 people every week moving across the Tasman in search of jobs and better prospects.

Meanwhile, according to Professor Hodgetts, the richest 1 percent of the population owns three times more than the combined cash and assets of the poorest 50 percent. He commented that New Zealand had gone from one of the most equitable societies in terms of income distribution in the world to one of the least equitable, and "the cracks are getting bigger."