

New Zealand household finances increasingly precarious

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When the New Zealand government passed legislation last month to clear the way for its asset sales program, Finance Minister Bill English boasted that “mum and dad” investors could increase their wealth by acquiring shares.

The Mixed Ownership Model bill provided for the sale of up to 49 percent of shares in Genesis Energy, Meridian Energy, Mighty River Power and Solid Energy, as well as a sell-down of the government’s majority stake in Air NZ to 51 percent. In order to fend off criticism of the sales, the government said designated parcels of shares, believed to be priced at \$1,000, would be offered to “ordinary” purchasers. In fact, regardless of the initial buyers, the shares will eventually be concentrated in the hands of a narrow layer of wealthy investors.

The Labour Party and the Greens have launched a reactionary nationalist “Keep our Assets” campaign, which accepts the sell-off but calls for the companies to be retained in New Zealand hands. From this standpoint, the opposition parties have called on the government to disclose how many families will be able to buy shares. Labour’s state-owned enterprises spokesman Clayton Cosgrove said the cost of shares would “break the bank” for most New Zealanders. Green Party Co-leader Metiria Turei declared: “Kiwi families do not have thousands of dollars sitting around to buy shares in companies they already own.”

For this political purpose, the opposition parties highlighted Statistics New Zealand data showing that the median household income is \$67,000 (\$US53,000) and the median household has just \$1,700 in the bank. The household savings rate is a meagre one percent of

disposable income, around \$600 a year.

The figures provide a revealing glimpse of the precarious financial existence of most working families. They are an indictment, not only of the current conservative National Party government, but of all the major parliamentary parties, including Labour and the Greens, which have presided over an historic social reversal during the past three decades.

According to a report in the *Sunday Star Times* on July 1, two-income families are increasingly worse off than single-income households were at the beginning of the 1980s. The article noted that at the end of a 30-year period of social decline, the onset of the current financial crisis is “threatening to put them under”.

The number of women in the workforce has risen substantially, and many families rely on more than one income to cover soaring expenses such as housing, health insurance and education. Expenditure on food, clothing and transport has dropped since 1980. But payments for housing and utilities jumped from 16.63 cents in every dollar earned in the 1970s, to 23.55 cents in the dollar in 2011. The fixed monthly outgoings of today’s families are now two and a half times higher than those of their 1970s single-income counterparts.

Households are buried under a mountain of debt arising from these long-term financial commitments. In 1980, debt accounted for 47 percent of a family’s disposable income. Household debt started rising sharply in 1991 and peaked at 153 percent in 2008 and 2009. Over the last three years, in the wake of the financial crisis, there has been a cut-back in spending and living standards, and household debt levels have

fallen slightly to 143 percent of disposable income.

According to the Reserve Bank, in the past 20 years total housing and consumer loan debt has increased about six-fold in real dollar terms. The turning points in the rise in household indebtedness are significant. The first, in 1991, came at the end of two terms in office by a Labour government. From 1984, Labour was touted as a “world leader” in its relentless application of pro-market “reforms,” which led to an onslaught on jobs, wages and public services. Privatisation and the imposition of “user pays” in every sphere of public activity, including education and health, saw increased daily living expenses as the value of wages rapidly declined.

Debt continued to rise gradually through the 1990s, as National Party-led governments deepened the assault on working people. Another upturn occurred from 2001, this time under the Labour government led by Prime Minister Helen Clark, which, with the support of the Greens, ushered in a further period of wage stagnation and government funding cuts designed to return budget surpluses. Government debt was, in effect, transferred onto the backs of the working population as the share market boomed.

Reports have revealed that after 1984, inequality in New Zealand increased more sharply than most other developed countries. According to the Child Poverty Action Group, the top 10 percent of the population now accounts for 51.8 percent of the country’s net worth, while the bottom 50 percent owns just 5.2 percent.

Soaring household debt has been one of the coping mechanisms used by working people to sustain their living standards. This period is coming to an end. Figures released by Terralink International show there were 524 mortgagee sales in the first three months of this year—the highest first-quarter number on record, almost six a day. The majority of those, Terralink managing director Mike Donald said, were “mum and dad” owners who could not afford to service their mortgages.

Federation of Family Budgeting Services chief executive Raewyn Fox told the *Star Times* she had seen

a substantial increase in the number of people who might be considered “well-off” coming for financial advice. “In particular, where there’s been two incomes and something has happened, like if one of them has been made redundant,” Fox said, adding that people had their finances organised so tightly “that a little shock can be a major thing.”

Only the wealthy and companies—both foreign and domestic—will buy up the shares on offer from the government’s privatisation plans. Moreover the sell-off of electricity utilities will contribute to further increasing household financial stress that has resulted from three decades of pro-market restructuring by National-led and Labour-led governments alike.



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