After the Budget: New Zealand still adrift without a compass?

Benedikte Jensen

The Government had a real opportunity with this Budget to show some political courage, and make the hard decisions that would set a clear course towards higher productivity and a stonger society. Instead, the Government has delivered a budget that works on cost control across the board, without the more deep-seated changes in spending priorities needed to invest behind growth, and invest in people to avoid a social deficit.

Before the Budget, the New Zealand Institute called on the government to focus on the following priorities in its budget:

- A step change in growth especially through boosting business innovation; and supporting New Zealand businesses to seize greater global market share.
- support for vulnerable communities (especially young people and low income families) during the recession.
- Some real commitment to more lightly tax productive investment and savings (for example through gradual reductions in company tax and taxes on savings overtime), while making residential property investment less attractive. This will help to address the structural imbalances in the New Zealand economy.

So, how did the Budget measure up against these suggested priorities? Is a clear national strategy apparent to not just to keep New Zealand afloat but to build a stronger vessel for the future and see us speed past other countries still floundering in the flotsam and jetsom of the global recession? In short, the answer is “no”.

The Government deserves some kudos for frontloading capital spending on roads, schools and state houses to boost economic activity during the recession. Reductions in business compliance costs and investment in broadband should also be lauded. Taken as a whole, however, these initiatives hardly signal a brave new direction to boost growth and productivity.

Even the cost control measures lack credibility. With health spending alone running at around $750 million each year in the recent past, it seems hardly credible for the government to stay within the Budget’s $1.1 billion spending target in the future. There is no detail in the Budget about how such an implausible target will be achieved. The Government appears to have ‘kicked for touch’ the hard decisions that might underpin such a radical reversal in government spending in the future. Deferring NZ Super Fund contributions till at least 2020 is code for requiring tax increases later that decade to fund the sharp increase in age-related costs.

More worrying, the Budget appears to deliver nothing in social investments to prevent rising rates of child poverty as already strained benefit dependent households are stressed as part-time work dries up. What investment that has emerged is firmly in the ‘ambulance at the bottom of the cliff’ category – a little more spend on policing, and prisons.

In short, this budget is a bit like plugging a leak in the boat but doing nothing more while we remain adrift without a compass – we aren’t sinking, but neither is New Zealand going anywhere fast.