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Budget Brief 2010

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Budget 2010 is a promising start, but not a bold leap towards closing the income gap with Australia. The changes are mostly small steps, providing the opportunity to test responses, while retaining the ability to strengthen and redirect later as the economic growth strategy is further developed.

The budget plots a smooth course, balances many competing demands, and includes many growth enhancing changes. It increases incentives with the tax changes, catalyses growth opportunities, shifts investment toward productive assets, encourages savings, and follows a smooth fiscal path, all while offering something positive for almost everyone. The debt to GDP ratio is higher than desirable for the long term but provided there are no adverse shocks, a fiscal surplus is expected in a few years.

There are steps towards increasing science output; building capability, investing in infrastructure and in people. Science effort is being focused more on economic goals, and there are provisions for strengthening the connections between public science and commercial enterprises.

There is more in this budget for higher income people than for those on lower incomes. That is consistent with the view that improving New Zealand's economic performance is the way to deliver better outcomes for all. The next step should be to look for ways to improve outcomes for lower income families, especially those with children, and ideally in ways that reduce costs to the state and increase productivity.

New Zealand is in a better position than many developed countries because of the strength of the government's balance sheet, a sound banking system, exposure to commodity upside, and abundance of opportunities. However, the current account vulnerability needs to be countered with accelerated growth of high margin exports and a strengthening national balance sheet. The investment account, retirement income exposure, and capital needs of high growth, high value exporters also remain to be addressed.