New Zealand budget deepens austerity measures

By Tom Peters
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The budget handed down on May 24 by the conservative National Party government of Prime Minister John Key includes a raft of cutbacks that deepen the austerity program that has been imposed on the working class since the 2008 financial crisis. The government has pledged to return the budget to surplus by 2014-15, in line with demands from the International Monetary Fund and credit ratings agencies.

Since New Zealand's economy first went into recession in 2008, the Key government has slashed public spending on welfare, health and education, increased the regressive goods and services tax (GST) and sacked more than 2,500 public sector workers. The government is partially privatising state-owned power companies and is planning to introduce privately-run, for-profit "charter" schools in socially oppressed areas.

Finance Minister Bill English described this year's budget as "moderate" and claimed that the government was "avoiding the substantial cuts to public services and living standards that we are seeing in many other developed countries". In reality, the government's "zero budget"—so-called because it involves no net increase in spending—dramatically escalates the assault on living standards, with severe cuts to basic services, including aged care and education. English acknowledged that it was "probably the tightest budget in the last *20 years*".

New Zealand's economy, which relies heavily on agriculture exports and is highly vulnerable to international shocks, has been stagnant for the last four years. Unemployment stands at 6.7 percent, having almost doubled since 2007. Many economists have questioned the government's ability to deliver its predicted $197 million budget surplus in 2014-15. That figure is based on dubious Treasury forecasts of growth returning to a "normal" level of 2.6 percent for the fiscal year to March 2013, and 3.4 percent in 2014.

The forecasts are based on very optimistic predictions for international growth, which are already being undermined by the slowdown in China and turmoil in Europe. The government will be compelled by a further downturn to implement even deeper cuts. Economist Bernard Hickey wrote in the *New Zealand Herald* that policymakers had to accept the probability that "our economy and the global economy will never get back to 'normal,'" adding that "assumptions about paying for pensions and healthcare have to be completely reworked".

Economists have also cast doubt on Treasury's prediction that rebuilding the ruined city of Christchurch, which was hit by earthquakes in September 2010 and February 2011, will add one percent to annual growth for the next four years. A predicted construction boom in the city has failed to materialise, as thousands of people with damaged or destroyed homes have spent months wrangling over insurance claims. Others have been unable or unwilling to rebuild or buy a new house because insurance companies refuse to provide new policies while Christchurch continues to be rocked by aftershocks. The budget provides no assistance for Christchurch residents whose houses are uninhabitable and who face soaring rents due to a shortage of accommodation.

University and vocational polytech students face some of the most severe attacks. More than 500,000 people will be forced to pay back their student loans more quickly, with the mandatory repayment rate rising from 10 to 12 percent of any earnings over $19,080 a year. The government will also push an estimated 5,000 people off student allowances by tightening eligibility criteria.

Pitifully low allowances, generally less than $200 per week, which are available to some students from low-income families will no longer be paid for more than four years of study or for postgraduate study. These moves will put higher education even further out of reach for working class students.

A move to increase class sizes in primary and secondary schools to a ratio of 27.5 pupils per teacher could result in 1,122 job cuts, according to the Post Primary Teachers' Association. Intermediate schools claim that technical classes—such as woodwork, metalwork, electronics and cooking—could be wiped out. The government also has plans to introduce performance criteria in order to drive down teachers' wages, fraudulently claiming that this will improve the quality of teaching.

The government's $405 million boost to health spending is lower than last year's increase and less than what is needed to maintain services at the current level. The government will cut funding for its drug buying agency Pharmac by $30 million next year, and increase charges for prescription medicines.

The government will end aged care subsidies for hundreds of people by cancelling increases to the $210,000 asset test threshold, which had been rising by $10,000 a year. By 2015-16, an additional 600 elderly people will be denied government assistance for residential or rest home care. Prime Minister Key has also ruled out increasing pay for aged care workers, who typically earn little more than the poverty-level $13.50 minimum wage. Key told TVNZ that spending $140 million to increase wages to just $17 an hour—the level paid to workers directly employed by District Health Boards who do the same job—was not possible because "we just simply don't have that money."

As it drives broader sections of the population into social distress and poverty, the Key government is presiding over a vast transfer of wealth to the rich. In 2010 it slashed the company tax rate from 30 to 28 percent and the top income tax rate from 38 to 33 percent. Last year's *National Business Review* "Rich List" found that since 2010, the country's wealthiest 151 people had increased their combined wealth by $7 billion, or 20 percent, to $45.2 billion.

The opposition Labour Party has feigned opposition to the budget measures. Labour leader David Shearer demagogically called it a "zero aspiration" budget that would do nothing to stop "more than 50,000 Kiwis fleeing to Australia" each year. Shearer's main criticism, however, was that National had failed to make enough "tough choices" to reduce spending. Labour fully supports imposing the burden of the global economic crisis on working people. It simply differs on how this should be done. While denouncing stricter asset testing for aged care subsidies, Labour has joined the far-right ACT Party and other mouthpieces for big business in calling on the government to increase the age of superannuation entitlement from 65 to 67.

Labour's denunciation of the increased student loan repayment rate is no less hypocritical. It was the Labour government of David Lange which introduced the first flat-rate tertiary fees during the 1980s. During the Labour government of Helen Clark from 1999 to 2008, fees increased steadily and total student debt ballooned from $3 billion in 2000 to more than $10 billion in 2008.

In every country, workers and young people face unrelenting attacks on their living standards and demands from the established political parties that they sacrifice hard-won gains, including the right to an education and the right to a decent retirement, for the good of the "national economy". Amid the deepest crisis since the Great Depression, such elementary rights can only be defended through a political struggle to abolish capitalism, based on a socialist and internationalist program.