

# NZCPR Weekly

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NEW ZEALAND CENTRE FOR POLITICAL RESEARCH

## MASSIVE INCREASE IN SPENDING, LITTLE INCREASE IN BENEFIT

Dr Muriel Newman

Whether voters feel that New Zealand a better country now than when Labour was first elected in 1999 is one of the questions they will answer on Election Day. Not since the sixties has a New Zealand government had it so good with year on year record surpluses. In fact, since taking office, Labour has spent \$85 billion more than if core government spending had been held at 1999 levels. The question is whether this massive additional spending has been of benefit?

One of the key reasons that the government has had so much money to spend, of course, is that not only did they increase taxes, but they have resolutely refused to adjust the income tax thresholds for inflation. And with inflation increasing by a whopping 25.7 percent since 1999 - causing a 20.5 percent decline in purchasing power – that decision has put serious pressure on household budgets. Using the Reserve Bank's inflation calculator, the following table shows the value of our current tax thresholds and the value that they should have been if they had been adjusted for inflation. Also shown are the new thresholds announced in the budget.<sup>1</sup>

What is clear from the table is that far from being generous and creating an incentive for people to work harder, when fully implemented, apart from at the lowest level, Labour's tax cuts will not have even completely adjusted our tax thresholds for inflation. In light of the Reserve Bank's forecast of inflation rising to an eighteen year high of 4.7 percent, under Labour's tax regime, taxpayers will find themselves increasingly worse off.

Phil Rennie, a policy analyst for the Centre for Independent Studies, published a report last year into Labour's spending binge. He examined social statistics to see whether we are better off as a result of their massive spend-up. What he found is disconcerting. In spite of public spending on health more than doubling, there was little improvement in basic health indicators with the lion's share of the extra spending going on wages. In education he found that the important literacy and numeracy indicators showed little change. In relation to income disparity he found that there has been no measurable change since 2000. And while overall crime statistics were seen to have decreased since 1996,

“violent crime has increased by 9.3 percent since 2000, compared to a 0.9 percent increase for the preceding five years”.<sup>2</sup>

All in all, his results paralleled many other studies from around the world that show that government spending has little impact on social improvement once that spending exceeds a critical level of around 30 to 35 percent of GDP. At that stage, rather than concentrating on providing public good services which otherwise wouldn't exist, the government starts taking over what was previously the responsibility of the individual. Dr Roger Bowden, Professor of Economics and Finance at Victoria University and this week's NZCPR Guest Commentator, examines this theme that profligate government spending does more harm than good, in his new book “The Economic State of the Nation”. One of the consequences of this era of big government, where the core public service has ballooned from 29,000 in 1999 to 44,500 today, is that a stultifying bureaucracy is slowly suffocating the good things in our economy.

Professor Bowden put it like this: “*Once started, managerial bureaucracy becomes a self-perpetuating virus, to the point where it eventually gets out of control altogether. Like some swelling flood, it gathers momentum as it sweeps common sense from its path, and it becomes overlain with empire building, careerism and other supplementary agendas. By now the organization is being run by the wrong people, and their mistakes are no longer micro, they are mega*”.

He goes on to explain that the public service has become so bureaucratic that if all the managers in the public health service fell ill, there wouldn't be enough hospital beds to put them in! He has calculated that some 60 percent of the budget for public research funding is now gobbled up with administration costs. In the tertiary education sector, he reveals that for each coalface staff member who does the teaching and research, there are now two administrators.

A cursory look at the education sector shows a maze of bureaucracy, which includes the Ministry of Education with 3,348 personnel, the New Zealand Qualifications

Tax Rate	Existing Threshold	Inflation Adjusted Threshold	1 October '08 Threshold	1 April '10 Threshold	1 April '11 Threshold
15% (12.5% on 1 Oct)	\$9,500	\$11,943	\$14,000	\$17,500	\$20,000
21%	\$38,000	\$47,774	\$40,000	\$40,000	\$42,500
33%	\$60,000	\$75,430	\$70,000	\$75,000	\$80,000
39%	\$60,000+	\$75,430+	\$70,000+	\$75,000+	\$80,000+

Authority with 365, the Tertiary Education Commission with 340, and the Education Review Office with 237. As the size of this massive education bureaucracy grows, so too does the cost. According to the Annual Report of the Tertiary Education Commission, in 2006 29 staff earned over \$100,000, the Chief Executive earned \$380,000, and six staff received compensation for severance at a cost to the taxpayer of \$116,000. Last year, 50 staff earned over \$100,000, the Chief Executive earned \$440,000 and 58 staff received compensation of \$1.7 million.<sup>3</sup>

In his NZCPR guest opinion piece, China, NZ and the Free Trade Agreement Professor Bowden contrasts New Zealand's "decaying" tertiary system, where "the Tertiary Education Commission has become part of a problem it should be trying to fix", with that of China:

*"Visiting China is a disconcerting experience these days. The main or central campus of Xiamen University, which is where I've just been, has nearly 30,000 students, every single one of them postgraduate. Gone are the days of the old liturgical institutionalists, recycling the approved Maoist political line. This is now a competitive structure in which each institution is acutely aware of its own official ranking, for there is such; and has figured out that the best way to achieve this is to feed off the major US and European universities for staff, ideas and standards. Any way you measure it, one thing stands out, that this is an amazing and unprecedented build up of human capital".* To read Prof Bowden's article see [www.nzcpr.com](http://www.nzcpr.com).

But how we feel about our country goes far deeper than questions of taxes, bureaucracy, and poor service. A growing sense of disquiet is pervading our society.

It is epitomised by concerns over the fact that the police and emergency services waited 20 minutes before attending to a liquor store owner who had been shot in the chest and lay dying – while customers freely walked in and out of his store.

It is exemplified by the terror of families living in the Manurewa "Badlands", who fear that they may be the next victim of the violent crime that ravages their neighbourhood.

It can be seen in the anxiety of the grandmother who

worries that the knock on the door might be the police coming to investigate whether she really did smack her six year old grandson last week.

It shows in the despair and the dilemma of the father who has just worked out that if he takes the \$10,000 job promotion he's been offered, his income will drop because he will lose some of his 'working for families' welfare payment and end up worse off.

It can be recognised in the pain of parents, who have just been told that their son and his family are going to shift to Australia for the higher salaries and better opportunities.

It is evident in the desolation of the small business that faces closure because the government has made it too tough to adapt to the difficult trading conditions.

And it is expressed in the anger felt by the young mother on whom it has just dawned that the reason that the government cannot afford to give her a full course of Herceptin treatment for her breast cancer is because they are spending so much money on the endless, mindless television ads that are currently promoting one government programme after another, ahead of the election.

Meanwhile, those who want to scream out that these things are wrong and to challenge those who believe they deserve the right to govern our country to tell us how they will cure this malaise that has infected our society, stay silent for fear of breaking the new election law and ending up in prison.

New Zealand is a great little country, but less so than it was nine years ago. We are suffering from the effects of an overbearing administration that has tried to do too much. An administration that believes that big government knows better than we do how to run our lives. An administration that has now got it seriously wrong!

**This week's poll asks:** Do you believe tax thresholds in New Zealand should be automatically adjusted for inflation?

#### FOOTNOTES

1. Reserve Bank's inflation calculator <http://www.rbnz.govt.nz/inflationcalculator/calculate.do>
2. Phil Rennie, New Zealand's Spending Binge [http://www.cis.org.au/issue\\_analysis/IA83/ia83.pdf](http://www.cis.org.au/issue_analysis/IA83/ia83.pdf)
3. Tertiary Education Commission, 2007 Annual Report <http://www.tec.govt.nz/upload/downloads/annual-report-tec-2007.pdf>

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