

Analysing New Zealand's Operating Balance Deficit

In 2009 the core Crown expenses of the NZ government began to overtake the core Crown tax revenue, thus from 2009 and onwards an operating balance deficit began to grow. The deficit in NZ was caused by the 2008 recession, existing policies and issues, the global financial crisis, and the 2010 Christchurch earthquake.

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[Student explained in detail these causes using economic concepts and integrated changes shown on an AS/AD model and Circular Flow model]

Conclusion

The most significant factor contributing to the operating balance deficit was the 2008 global financial crisis and subsequent global recession. From 2008 to 2009, there were major drops in NZ's GDP, which were caused by the existing 2008 NZ recession and the global financial crisis. From the 2008 March quarter to the 2009 March quarter there has been a drop in NZ's GDP of 2.4%. The recession caused many people to be unemployed or incomes of employees were decreased. Ultimately, the recession caused the taxation revenue of the government to decrease from \$56,747 to \$54,681 million dollars. There was a \$2,066 million dollar decrease from 2008 to 2009. Government expenditure in NZ rose 10.5% from 2008 and 2009, as total spending in 2008 was \$75,842 million dollars and went up to \$83,821 million dollars in 2009. Thus, government expenditure rose \$7,979 million dollars or 10.5%.

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The Christchurch earthquake was another factor that caused the build-up of the NZ governments operating balance deficit, which occurred in September 2010, but it did not contribute as much as the recession did. According to Statistics NZ, the Government increased expenditure by 6.6%, year ending in 2011 March quarter. GDP during 2010 to 2011 decreased much less compared to 2008 and 2009 when NZ was in a recession. GDP decreased by only 0.2% in the September 2010 quarter because of the Canterbury earthquake, therefore the recession that affected NZ during 2008-2009 was a much more significant cause to the government's balance deficit as it caused NZ's economic situation to be significantly slower than compared with the Christchurch earthquake.

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Return to Fiscal Surplus Policies

To eliminate this balance deficit the NZ government has made the goal to return to fiscal surplus by 2014/15. The Government is faced with the problem of scarcity, there is limited resources like tax revenue to fund necessary expenditure, and therefore they have to make economic decisions that will create an opportunity cost. The government has made many changes and new policies, which involve spending more on priority projects and decreasing its spending on other sectors. The government has spent more in NZ's public service sector. By increasing spending on the public services the NZ government has created 2,800 more jobs in the public health sector, 900 more police officers and 1,600 more teachers. The opportunity cost of this decision is other agencies face reduced funding and job losses, because there is limited tax revenue.

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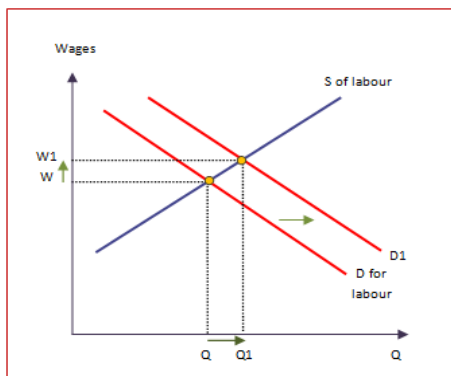
To save money the government has merged several agencies to lessen job spaces. These mergers are expected to save \$115 million dollars over a five-year period. Some agencies merged were the Ministry of Agriculture and Forestry, the Food Safety Authority, and the Ministry of Fisheries; this is expected to save \$48 million dollars.

Government agencies in the health and charitable sectors have also faced changes and cuts to funding to save \$20 million dollars. Jobs have also been lost due to the government's budget cuts such as 220 jobs in Kiwirail. The job losses is the opportunity cost to the government of deciding to merge these agencies, because they will have to pay more in transfer payments like the unemployment benefit.

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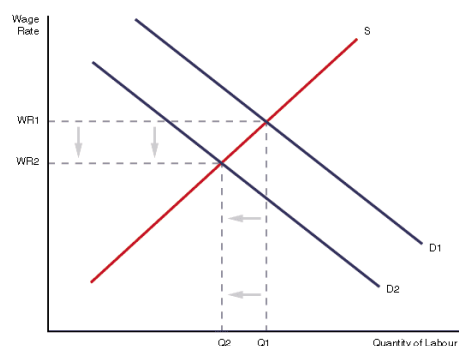
The government has also made new policies concerning its taxes, such as tobacco, which will increase in tax 10% each year for four years. Tax credits are being removed as well to increase savings, such as childcare, housekeeper, income under \$9,880 and the children's income credit. These will save the government \$117 million over 4 years. The government has also tightened its tax regulations on holiday baches, boats and planes.

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Due to the policy changes made since several groups of people in NZ have been affected. Because of increased government spending in the public service sector all teachers, nurses, doctors and law enforcements have benefited positively. They are receiving more funding and any unemployed who are specialised in these services will be able to enter these sectors more easily. Because there is an increase in the demand for labour in these sectors as shown on the model (D-D1) and the quantity of labour employed increases from Q to Q1 and the wage rate increases from W to W1 in these sectors.

However, not all people in NZ benefited from the return to fiscal surplus policies. Since many agencies have been merged, the number of jobs in the merged sectors has decreased, causing some people more difficulty in finding work because they were specialised in these jobs and so it is harder for them to be re-employed in other sectors or industries.



There is decreased demand for their labour skills and this is shown on the model as the DL curve shifting left from D1 to D2, thus causing employment to reduce from Q1 to Q2 and a drop in the wage rate from WR1 to WR2 in these sectors.

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The opportunity cost to the government of this economic decision is they may remain on the unemployment benefit for longer and need to be retrained, taking courses that need to be funded from tax revenue.

Smokers and producers of tobacco are affected due to the new taxes and regulations enforced by the government, because now the tax on tobacco will increase by 10% each year for four years, and smokers in NZ will suffer due to the increase in price.

Producers are affected by the regulations that may decrease sales, e.g. bans on advertising and having to use plain packaging with a large health warning all over it and they have to be locked away from public view. Tax credits are also being removed to increase savings so people associated with childcare, housekeeper, income under \$9,880 and the children's income credit will suffer.

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Conclusion

Since the increase of government spending in NZ's public service sector, students and teachers have benefited, and people associated with the health sector have benefited. People who are specialised in these sectors benefited as more job vacancies opened up.

Certain groups have been affected by the new tax policies, for example smokers who now have to pay more for cigarettes and tobacco. Additionally, the changes to tax regulations around holiday baches, planes and boats and tax credits being removed have affected other groups.

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