ISSUEANALYSIS

THE CENTRE FOR INDEPENDENT STUDIES

New Zealand's Spending Binge

Phil Rennie

EXECUTIVE SUMMARY No. 83 • 15 March 2007

- Core government spending is now almost **$20 billion** a year higher than it was in 2000, a 32% increase in real terms.
- Total government spending now makes up 40% of GDP, compared to 35% in Australia. Most measurements show government spending is higher now than it was under the Muldoon government of 1984.
- If this extra $20 billion of expenditure was allocated to tax cuts, nearly all income tax could be abolished. All the remaining public services could be solely funded by GST and a low corporate tax rate.
- The government has little specific information on how effective this extra spending has been. We lack information on outputs and outcomes from the public sector, which makes it difficult to measure exactly what return taxpayers are receiving for their investment. Other countries do a much more comprehensive job of this.
- The available social indicators we have show negligible improvements since 2000. Life expectancy, infant mortality, hospital outputs, literacy, violent crime, suicide, poverty and income inequality have barely changed despite a massive increase in social spending.
- Around the world there is little relationship between higher public spending and better social outcomes.
- A major explanation for why this spending has been ineffectual is because of middle class welfare. A large proportion of government spending is simply recycled (or 'churned') straight back to those who paid the tax in the first place.
- Therefore much public spending today is not 'new' spending; it is displacing spending that would have happened anyway, by individuals themselves. It follows that more public spending will not necessarily increase public welfare, and may even reduce it.
- Many people could afford to purchase their own social services if taxes were lower. This would allow for more competition, innovation and personal responsibility, and would reduce unnecessary bureaucracy.
- Australia provides an interesting comparison to New Zealand, because they have a smaller government with more reliance upon private health, education and superannuation. They also outperform New Zealand on most social indicators.
- Diminishing returns from spending are coinciding with rising costs of taxation. This means New Zealand could achieve better social and economic outcomes with less taxation and spending.

Phil Rennie is a Policy Analyst with the New Zealand Policy Unit of The Centre for Independent Studies.

Introduction

> *Presumably, governments tax their citizens to be able to carry out public programs that should increase the well-being of their citizens. Unless this occurs, there seems to be little point in reducing individual economic freedom through higher taxes...*
>
> Vito Tanzi and Ludger Shuknecht[1]

Since the year 2000 the New Zealand government has been on an unprecedented spending binge. Core government spending is $20 billion higher than it was in 2000, an increase of 32% in real terms.

Healthy economic conditions have given the government the illusionary luxury of being able to afford this extra spending. Not adjusting tax thresholds for inflation means that every year (in real terms) our tax rates subtly increase, giving the government more fiscal room to play with.

Since the year 2000 the New Zealand government has been on an unprecedented spending binge

The previous papers in this series have examined the *cost* of this extra taxation. Most estimates now suggest that raising a dollar of tax costs the economy at least $1.20, because of the changes in economic behaviour it induces. Therefore the *benefits* of the resultant spending must meet a high threshold of quality.

Trying to assess the value of government spending is a surprisingly difficult task. Politicians often boast about spending increases, but what results are we actually getting? Can we measure them? And are the returns increasing or diminishing?

For example, health spending has increased by 49% since 2000. Is our health system 49% better? Are we any healthier as a nation? If not, why not? The rest of this paper addresses these questions.

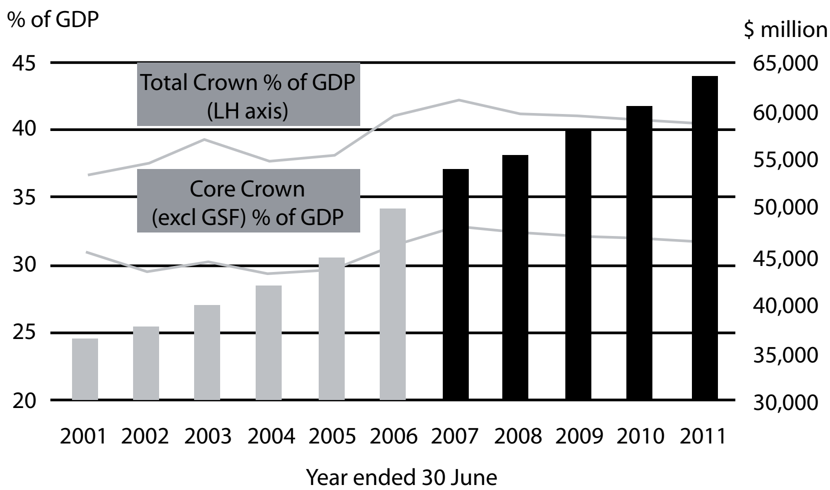
How much do we spend?

According to the latest accounts, government spending (core crown expenses) for 2007 will be **$54 billion**, which is 33.2% of GDP.[2]

Since 2000 core crown spending has gone from $34.5 billion a year to $54 billion, an increase of $19.5 billion. Adjusting for inflation, this is a 32% increase in real terms.[3]

Including local government, capital outlays and spending by State Owned Enterprises, the OECD estimates total public spending in New Zealand is closer to **$65 billion**, or 40% of GDP.[4]

Figure 1: Core crown spending for the decade



Source: Treasury, Half-Year Economic and Fiscal Update December 2006

On a world scale, 40% is the OECD average for spending. However, a closer look shows the world divided into two blocks: the high spending and economically stagnant European nations, and the lower spending and more prosperous countries, which include Australia, the USA, Ireland, Singapore and Hong Kong. New Zealand is right in the middle of these two distinct groups, but trending upwards.[5]

Figure 1 above shows New Zealand's increase in spending as a percentage of GDP and in actual terms, through to 2011.

For the decade 2000–2010 core crown spending will have increased from $34.5 billion to $60.6 billion.[6]

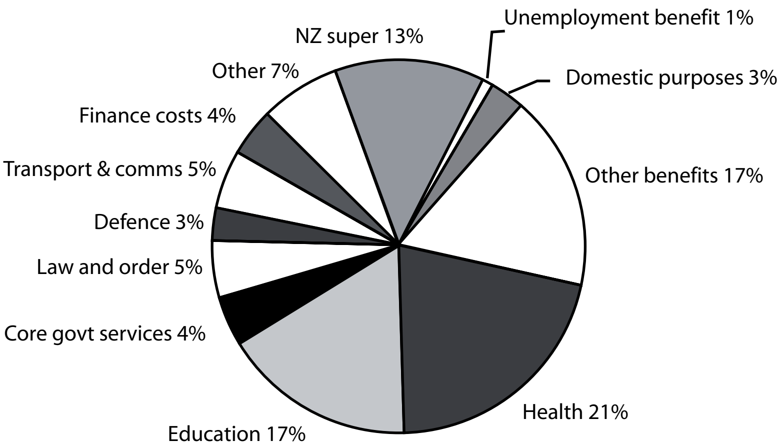
In the longer term, an ageing population will put upward pressure upon superannuation and health spending. A recent long-term planning paper from the Treasury says that even if spending and tax policies remain about the same, serious deficits will begin to emerge from 2030 onwards.[7]

Nearly three-quarters of all government spending goes into social policy, including health, education, benefits and superannuation

What do we spend it on?

Nearly three-quarters of all government spending goes into social policy, including health, education, benefits and superannuation.

Figure 2: Breakdown of government spending, 2006



Source: Treasury's Key Facts for Taxpayers[8]

The biggest increases since 2000 have come in health, education and family tax credits. In particular:

- Health spending has increased from $6 billion to $10.4 billion since 2000, and by an average of 8% a year for the last 10 years.
- Education spending has increased by 7% a year for the last 10 years (and tertiary education by 6%).[9]
- Extensions to the Working for Families package means the cost will soon rise to $1.6 billion a year.[10]
- $2 billion a year is now allocated to the Government Super Fund to partially pre-fund superannuation costs in the future.
- The indexing of benefits to the consumer price index costs around $1.5 billion a year (note that in contrast, tax thresholds for workers are not indexed).
- $1.9 billion a year is reserved for new, unallocated spending.
- Large chunks of the budget surplus are now being used to fund capital projects. In the 2006 budget $1.2 billion is allocated for capital projects, mostly transport.[11]

On the positive side, the cost of servicing debt has decreased and social welfare spending has increased at only the level of inflation, thanks to falling unemployment.

How can we measure the results?

The billions of extra dollars spent must have done *some* good for New Zealand's overall well-being. But exactly *how* much benefit has it delivered, and how can we measure the results?

It is easy enough to measure the inputs; we know the government now spends an extra $20 billion a year. Trying to measure the *outputs* (for example, number of operations, new schools and so on) and the *outcomes* (for example, the health and education levels of society) is more difficult, but critically important.

Outputs and outcomes tell us the efficiency and effectiveness of the public sector, and therefore its productivity. Without this kind of information it is impossible to judge the true merits of public spending, and whether the rate of return is increasing or decreasing.

Public health spending doubled in the last ten years

However, trying to find this kind of information is difficult in New Zealand. Of the information that is available, little of it is specifically linked to spending initiatives. The OECD warned the government in 2005 that '… a lack of information makes it difficult to judge the real increase in outputs achieved as a result of the additional resources allocated over recent years.'[12]

These concerns were echoed by the Treasury in the same year, noting that 'Very little information is currently publicly available regarding expectations, targets, costs, productivity and value for money'[13] and that 'We also need to get better at improving the information we have on the effectiveness of government interventions and social services provision.'[14]

Since then, only limited signs of progress have been made. Treasury began a wide-ranging review of government spending last year, and recently released a series of discussion papers on how to measure productivity in the health sector. This is a good start, but it is remarkable that such a framework wasn't developed *before* this new spending began.

Of course, measuring the results of government spending is no easy task. Many services are difficult to quantify in dollar terms, and it is hard to calculate the worth of 'free' services, given that consumers don't have to pay and thus give them a monetary value. However this is a task that other countries (especially Australia and the UK) have tackled far more effectively.[15]

Whatever the difficulties, the amount of resources involved makes it essential that the government invests in better measurement procedures. Better information would let us judge the benefits of specific programmes, allocate resources more efficiently and allow for a more informed debate on the merits of tax cuts versus extra spending.

Despite these gaps, we can still look at general indicators to assess the 'state of the nation' and then look for any correlation with government spending. Are we a healthier, better-educated and more socially cohesive nation as a result of our investment?

There are many different statistics that can be selectively used to show the health and well-being of a society, so the key is to use the broadest possible objective indicators. The following section looks at basic measurements used by the Ministry of Health, the Ministry of Social Development, the OECD and the United Nations, such as life expectancy, infant mortality, literacy, crime and poverty.

The health of the nation

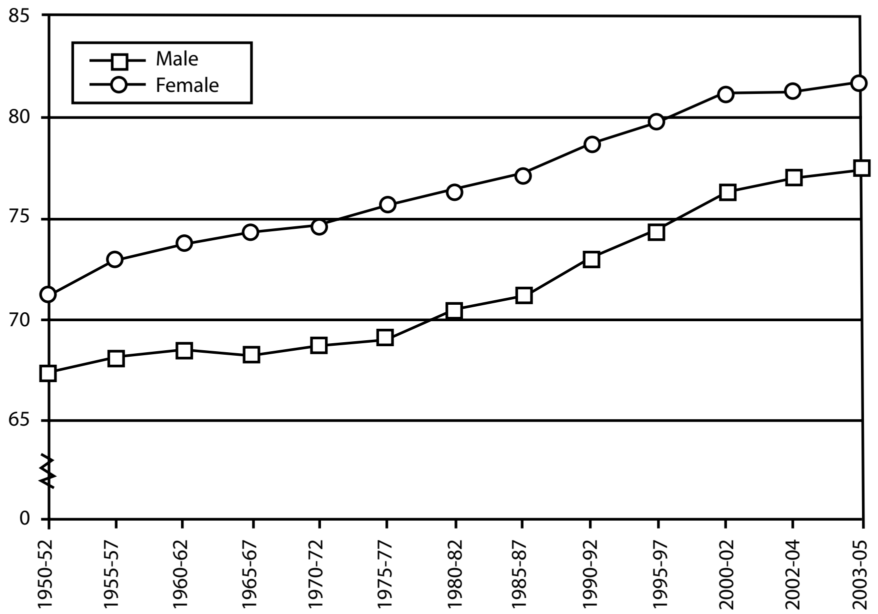
Public health spending doubled in the last ten years, and has increased in real terms by 49% since 2000.[16] It has also been the area of greatest concern over the efficiency and effectiveness of spending.

One of the most basic measures of health used around the world is life expectancy, which reflects better living standards and improved public and personal health care. Figure 3 below shows the trend for New Zealand since 1950.

The anomaly is obvious here—since 2000 the increase in life expectancy has slowed right down. From 2000 to 2004 (the latest available year) the average has only moved from 78.7 to 79.4 years.[18]

The lack of a positive relationship between public spending and life expectancy is evident. During the 1970s and 1980s an increase in spending accompanied a rise in longevity, but it was a below-par increase; other OECD countries (even those with lower spending) improved much faster than New Zealand.

Figure 3: Life expectancy at birth, by gender, 1950–52 to 2003–05



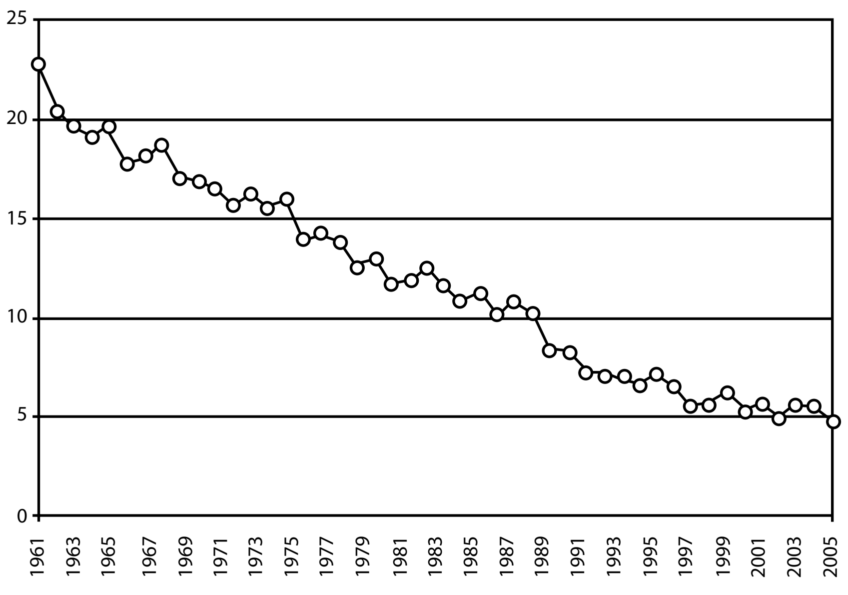
Source: Ministry of Health Annual Report 2006[17]

New Zealand's best decade was actually the 1990s, with our longevity improving faster than the worldwide average.[19] Yet this was a period (especially the early 1990s) of instability for public health with controversial reform and only modest funding increases.

Infant mortality is another key indicator used around the world, and once again the positive relationship with higher government spending is weak. There has been a big decrease since 1975, but since 1997 the decrease has slowed; it has gone from 6.1 to 4.8 deaths per 1000 births.[20]

During the 1970s and 1980s an increase in spending accompanied a rise in longevity, but it was a below-par increase

Figure 4: Infant mortality rates (deaths per 1000 live births), 1961–2006



Source: Ministry of Health Annual Report 2006[21]

Outputs produced by public hospitals are similarly disappointing. Treasury has concluded that from 2000/01 to 2003/04 '… hospital efficiency would appear to have fallen by 7.7% over the last three years.' This is in contrast to a 1.1% improvement in efficiency from 1997 to 2000.[22]

The major indicators from the Ministry of Health's annual report paint a similar picture:

- The number of elective surgery operations (one of the government's top priorities) has actually declined since 2000, from 107,366 operations to 105,437 in 2006.[23]
- Hospital readmission rates—a key indicator of the quality of care—are unchanged from 2000.[24]
- Hospital mortality rates are unchanged from 2000.[25]
- Patient satisfaction with District Health Board services has declined since 2002.[26]
- The average length of stay in hospital—a key indicator of efficiency—is largely unchanged from 2000.[27]

Lack of improvement in the most basic health indicators shows a poor return from what has been a massive investment

Higher wages for medical staff are a big driver of costs. Treasury estimates that 60% of the extra health spending has gone into higher wages, but the outputs per doctor and nurse have slightly declined. In some ways this cost has been inevitable because of the tight market for medical staff, but by itself it doesn't explain the decline in efficiency.[28]

This lack of improvement in the most basic health indicators shows a poor return from what has been a massive investment. It may reflect the limits of medical technology and the human body itself, but it is a remarkable slow-down compared to the dramatic improvements made in the late twentieth century.

These indicators clearly suggest that productivity from the health sector is declining, and that the results of our spending are diminishing. It is no surprise that Treasury says '… it is difficult to tell what improvements in health outcomes or services have been achieved for the additional expenditure on health, and whether New Zealanders are getting value for money.'[29]

Education outcomes

Since 2000 education spending (on primary, secondary and tertiary) has increased by $3.1 billion, a 26% real increase.[30] Once again the most important indicators show little change.

The Ministry of Education and the OECD both use the Programme for International Student Assessment (PISA) as the leading indicator for education outcomes. This test measures the literacy of 15 year olds in reading, maths and science on a world scale.

New Zealand performs well above the international average in all three areas, but two of our three scores have actually declined from 2000 to 2003.

Table 1: PISA literacy scores for New Zealand 2000–2003

	Reading	Science	Maths
2000	529	528	524
2003	522	521	525

Source: Ministry of Education and OECD[31]

The only other assessment of this type is the National Educational Monitoring Project (NEMP) for Year 4 and 8 students, which measure cross-curriculum achievement. Once again the changes are negligible; for Year 4 students there has only been a 'slight improvement' since the late 1990s, and 'little improvement' for Year 8 students.[32]

The other main indicator of education outcomes is the qualifications achieved by students. In this area New Zealand has improved: the percentage of school leavers with little or no qualifications has dropped from 16.5% in 2000 to 12.9% in 2005. There are now 32.8% of school leavers achieving university entrance scores compared to 27% in 2000.[33]

Social outcomes

Overall social spending (health, education, welfare and superannuation) now makes up 72% of all government spending, and has been the biggest area of increase. According to Prime Minister Helen Clark, before this spending increase New Zealand was 'a badly divided and disillusioned nation'[34] and 'The balance in our country wasn't right ... Our society with its history of caring about its members had become a harder, meaner place, with significant numbers of excluded people.'[35]

Has this extra social spending actually created a more equal, caring and cohesive society? Once again, the fairest way to measure the outcomes is to use the government's own indicators.

Has this extra social spending actually created a more equal, caring and cohesive society?

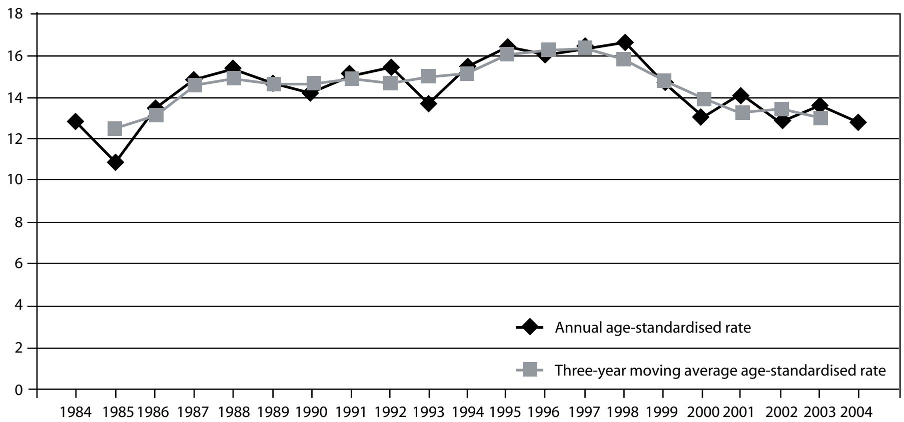
Last year the Ministry of Social Development released *The Social Report 2006*, which uses a range of statistical indicators to monitor the social well-being of New Zealanders. The most relevant and substantial indicators are suicide rates, crime, poverty and income inequality.

Suicide

Suicide rates are an important indicator of mental health and the well-being of society in general.

The suicide rate in New Zealand reached an all-time high in 1998 before declining over the next two years. From 2000 to 2004 the rate has changed little, from 13.1 per 100,000 people in 2000 to 12.8 per 100,000 in 2004.[36]

Figure 5: Suicide: Age-standardised rate (per 100,000)



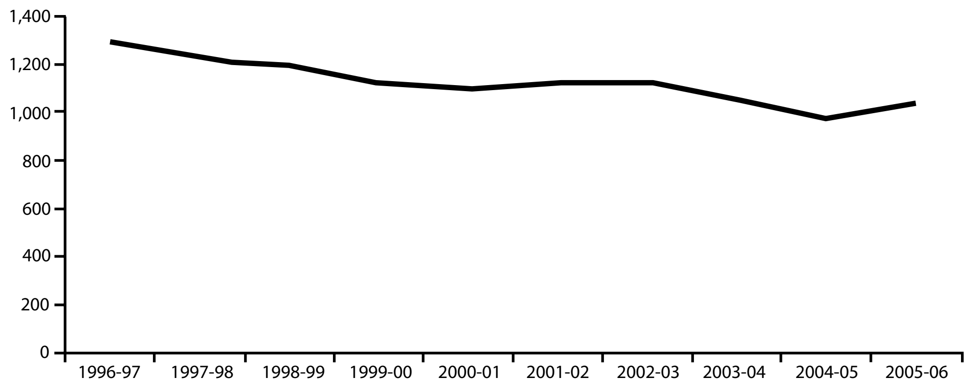
Source: Ministry of Health[37]

Longer term, the rate is now back to where it was in 1986. There appears to be little positive relationship with the level of government spending or the economic health of the nation.

Crime rates

Crime is an important indicator of personal safety, the effectiveness of law enforcement and the general health of a society. Since 1970 the number of reported crimes has doubled, with the peak reached in 1992. However since then there has been a steady decline—on a population basis reported crime is down 22% since 1996.[38]

Figure 6: Overall recorded offences per 10,000 population



Source: New Zealand Police Crime Statistics for year ending 30 June 2006[39]

The proportion of all New Zealand children in severe and significant hardship has increased from 18% to 26%

Once again there is no real relationship with government spending. In fact, since 2000 the decrease has actually slowed; there has been a 10% reduction, a good indicator but slower than the 13.5% decrease in the previous five years.

Violent crime has increased by 9.3% since 2000, compared to a 0.9% increase for the preceding five years.[40]

Poverty

Reducing poverty has been a major goal for the government, with spending on health, education, pensions, housing, economic development and Maori development greatly increased since 2000.

According to the Ministry of Social Development, between 2000 and 2004 '… the average living standards of the low-income population fell slightly.'[41] The proportion of the population experiencing some form of hardship was unchanged at 24%, but within that group 'severe hardship' has increased. In particular:

- The portion of Maori families living in severe hardship has risen to 17%, up from 7% in 2000.
- For Pacific Island families living in severe hardship the figure rose from 15% to 27%.
- The proportion of all New Zealand children in severe and significant hardship has increased from 18% to 26%.[42]

Income inequality

Reducing income inequality has been a key priority of the government, but again there has been no measurable change since 2000. In 2004, the disposable income of a household at the 80th percentile was 2.8 times larger than the income of a household at the 20th percentile, compared to a score of 2.7 in 2001.[43]

Likewise the OECD has found only a negligible change. The Gini coefficient measures income inequality, with a score of 100 indicating perfect inequality and a score of 0 indicating perfect equality. From 2000 to 2004 New Zealand's score has gone from 33.9 to 33.5.[44]

Summary—the state of the nation

There is little information to indicate that New Zealanders are getting more services and better results from the public sector for the large increase in resources provided. What little information exists is not encouraging.

Treasury briefing to Minister of Finance, September 2005[45]

New Zealand's lack of substantial progress on any of these social indicators is reflected in our United Nations Human Development Index (HDI) rating, which is a measure of life expectancy, literacy, education and GDP per capita for countries worldwide.

From 2000 to 2004 New Zealand's score has moved from 0.917 to 0.936, an increase of 2%, while our world ranking has dropped from nineteenth to twentieth.[46]

Overall, it is a disappointing scorecard. Given the scale of public investment the indicators should show much more positive results.

The best available evidence clearly suggests there is little correlation between higher social spending and better social outcomes

Summary: Change in indicators since 2000

Life expectancy	Negligible
Infant mortality	Negligible
Hospital operations	Negligible
Education literacy	Negligible
School leavers with qualifications	Increase
Suicide rate	Negligible
Crime	Decrease
Violent crime	Increase
Incidence of hardship	Negligible
Income inequality	Negligible
UN Human Development Index	Negligible
Government spending	**+ 32%**

Even more remarkable is that many of these indicators actually performed *better* in the five years prior to 2000, with a much lower level of public expenditure. New Zealand's HDI had its fastest rate of increase in the early 1990s, after below-average performance in the 1970s and 1980s.

Of course none of these indicators is definitive, and none is completely up to date; it takes several years for the relevant data to be collected. But the best available evidence clearly suggests there is little correlation between higher social spending and better social outcomes.

Has more public spending worked around the world?

This outcome is not unique for New Zealand. Around the world there is little relationship between government spending and the Human Development Index, as figure 7 shows.

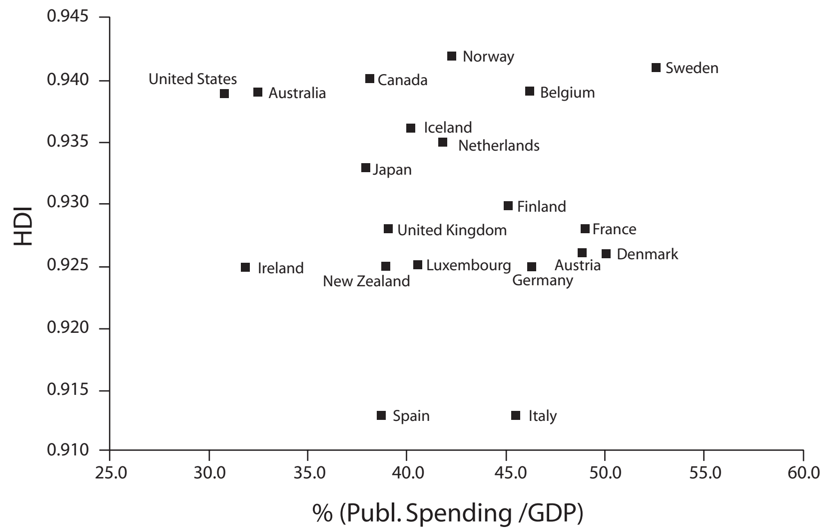
New Zealand's experience largely matches the thesis of economists Victor Tanzi and Ludger Schuknecht. Their 2000 book *Public Spending in the 20th Century* looked at the progress of industrialised countries and theorised that beyond a certain level (30% to 35% of GDP) government spending has a sharply diminishing impact on social outcomes. Remember that New Zealand is now at 40%.

Tanzi and Schuknecht found that government spending up until 1960 coincided with a great increase in living standards and social outcomes, but since that time the gains have only been moderate. Using a range of broad social indicators, they found almost no difference between countries with big, small and medium-sized governments.[48]

Further backing this theory is the fact that newly industrialised countries (such as Chile, South Korea, Hong Kong and Singapore) have rapidly caught up to the western world in terms of social outcomes, yet they have achieved this with a much lower level of public spending.

All this suggests that with the right policies governments could achieve the same social and economic gains with much less public spending (and tax).

Figure 7: Public spending vs Human Development Index



Source: CATO Journal, Fall 2005[47]

From the 1970s onwards the government began taking over what was previously the responsibility of individuals

Why hasn't the spending achieved more?

So why has the effectiveness of public spending declined in New Zealand and around the world? A major explanation is that of 'churning', or 'middle-class welfare', whereby government spending is simply recycled straight back to those who paid the tax in the first place.

Most government spending originally came about through necessity. Healthcare, unemployment insurance and the cost of schooling were the beyond the reach of most families in the 1930s, so government intervention was seen as justified and worthy. Labour Prime Minister Michael Joseph Savage described this as 'applied Christianity'.

However from the 1970s onwards social policy began to change. Services were expanded and made available to more and more recipients. Instead of providing services that wouldn't otherwise exist, the government began taking over what was previously the responsibility of individuals. Examples include family support payments, a generous universal pension, and greatly increased health and education spending.

The inevitable problem with making services universal is that they benefit the middle and upper classes. In effect, a large proportion of tax money is now recycled (or 'churned') straight back to the taxpayer in the form of social services.

Working out exactly how different households benefit from spending is a difficult undertaking, and was last attempted by Statistics New Zealand for the period 1997/98. Michael Cox broke these figures down further in his 2001 book *Middle Class Welfare*, concluding that wealthiest 40% of households receive 23% of all social expenditure.

In particular, Cox found that these top households receive 45% of education spending and 34% of all health spending.[49]

These figures are indicative only, and the actual amount of churning is likely to be much higher. A major limitation is that these figures are static; they only measure one period in time, whereas churning over the course of a lifetime is likely to be much higher. Many people are only on low incomes for a short period of time (for example, students) and will eventually pay higher tax.

And of course the figures are dated. There have been many policy changes since 1997/98 (the latest data) that are likely to have increased churning even further. Health and education spending—which tends to benefits all households—has greatly increased over this period.

In particular, extra spending on tertiary education (such as interest free student loans) tends to benefit middle class families and those who will go onto become New Zealand's highest earners. As the OECD remarked in 2002, 'to increase the generosity of the student loan scheme … will largely benefit medium and higher income families.'[50]

The Working for Families (WFF) package will eventually deliver tax credits to 360,000 working families, all of whom pay tax and then have to apply to get some of it back from the IRD. Last year the government further extended the scheme to include families earning up to $100,000, many of whom are also paying the top rate of personal tax. This is perhaps the most obvious example of churning.

Therefore, much public spending today is not 'new' spending; it is displacing (or 'crowding out') spending that would have happened anyway, by individuals themselves. It follows that more public spending will not necessarily increase public welfare, and may even reduce it.

It also means that most people could easily afford to fund their own social services if taxes weren't so high.

Most people could easily afford to fund their own social services if taxes weren't so high

What's so bad about churning?

Why is public spending of money inevitably going to be less efficient than letting individuals spend it themselves? Here are seven main factors that help explain the poor results from our public spending:

- *Administrative costs*. Transferring money on this scale is like using a leaky bucket because it requires a large bureaucracy to collect the tax and then distribute it. To cope with this extra spending, the number of people employed in the public service has had to increase by 27% since 1999.[51]
- *The economic cost of high taxation*. Taxation affects the behaviour of individuals, and alters their decisions on things like employment and investment. These deadweight losses are a major handbrake on economic growth.[52]
- *Lack of knowledge*. No matter how hard they try, a public monopoly will never understand the specific needs and requirements of an individual better than the person themselves. Given the equivalent resources, most individuals could buy cheaper and better services tailored to their needs.
- *Crowding out the private sector*. Government spending and regulation make it difficult (or impossible) for the private sector to get involved in many areas and find new solutions to problems. According to the Treasury, 'Agencies also, it must be said, tend to be risk-averse and, as a consequence of this, they are inherently less inclined to innovate than private companies constantly required to respond to the latest market developments.'[53]
- *Lack of competition*. People can't switch to an alternative health or education system or re-arrange their spending if they are unsatisfied with the performance.
- *Lack of personal responsibility*. In health for example, the emerging challenges are illnesses such as obesity and diabetes, which are strongly linked to lifestyle—diet, smoking and lack of exercise. Governments do attempt to influence behaviour with various marketing campaigns, taxes and incentives, but with only limited success.
- *Equity*. Churned spending does nothing for the poor and disadvantaged in society. By definition the spending goes straight back to the person who paid the tax.

Looking across the Tasman provides an interesting illustration of this. Government spending has also greatly increased in Australia, but there is still a much higher level of private involvement in social policy than New Zealand.

The size of government in New Zealand has reached such a high level that not only is the *cost* of government spending increasing, but the *benefits* are diminishing

New Zealand versus Australia

Australia has a smaller government than New Zealand; their government spends 34% of GDP compared to New Zealand's 40%.[54] It is also a much richer country with better social outcomes.

Incomes are a third higher across the Tasman, and the Australians also outperform us on a range of social indicators, including life expectancy, infant mortality, income inequality and suicide rates.[55]

Australia doesn't necessarily have *less* social spending; the difference is that private provision is more prevalent, and actively encouraged by the Federal Government. In health for example, 33% of Australian spending comes from the private sector compared to 23% in New Zealand.[56] In education, the corresponding figures are 26% for Australia and 17% for New Zealand.[57]

What if we hadn't spent this money?

In a proper evaluation of public spending we need to consider the alternative; what if the extra $20 billion a year of spending for 2007 was returned to taxpayers instead?

Incredibly, $20 billion would almost be enough to abolish all income tax. For 2006/07 the government is expecting to receive $20.5 billion in PAYE tax.[58] Therefore, if the government had frozen existing spending in 2000, by now all public services could be solely funded by GST, corporate tax and other indirect taxes.

In real terms of course, this would have meant a cut in public funding because of inflation and population growth. But would this have left us worse off as a society? The impact might be a lot lighter than expected, as per the theory outlined above—so much public spending has simply replaced private spending, and done so with less effective results.

A 0% tax rate would allow an enormous amount of people to afford private health and education and lift themselves entirely out of the state system. Additionally, it would have delivered a major boost in economic growth and living standards.

This is a radical and purely theoretical example, but it shows the substantial benefits from controlling the rise of government spending. It only takes a few years of economic growth for the relative size of the state to shrink, allowing for substantial tax cuts with no cuts to public services.

Conclusion

Trying to measure the effectiveness of public spending is an imperfect science, one that governments around the world have been grappling with for years. Choosing the right indicators is a subjective choice, and even if a value has increased or decreased, there is no proof that it is a direct result of government spending.

Inevitably, it is much easier to disprove a relationship of causation than to prove one. Clearly in New Zealand's case, even with our limited information, there appears to be little relationship between the dramatic increase in public spending and the general social welfare. Given the scale of the new spending, it should be much easier to find obvious improvements. Instead, most indicators have plateaued, enough to seriously worry the government's own advisors in the Treasury.

It appears that the size of government in New Zealand has reached such a high level that not only is the *cost* of government spending increasing, but the *benefits* are diminishing.

Spending is now at a level where it is crowding out private involvement, and taking over things people could do for themselves. As a result we are getting a poorer return on our investment in public services and suffocating the economy.

Too often politicians take the view that all government spending is inherently 'good'. There is not enough scrutiny of public spending, of its benefits and of the alternatives available to policymakers. Too often this reflects an ideological commitment to the role of the state, rather than a dispassionate look at what the state can realistically achieve.

There needs to be a wider debate on what the proper role of government is and what services should be realistically provided by people themselves. We need to consider what governments *can* do as well as what they *should* do.

Too often politicians take the view that all government spending is inherently 'good'

Endnotes

[1] Vito Tanzi and Ludger Schucknecht, *Public Spending in the 20th Century* (Cambridge: Cambridge University Press, 2000), p 71.

[2] New Zealand Treasury, *Half Year Economic and Fiscal Update 2006* (Wellington: Treasury, December 2006), p 46, http://www.treasury.govt.nz/forecasts/hyefu/2006/08.asp. Note this is only a measure of operational spending; much of the operating surplus is also being used for capital spending.

[3] For historical spending information see New Zealand Treasury, *Financial Statements of the Government of New Zealand for the year ended 30th June 2006* (Wellington: Treasury, October 2006), p 21, http://www.treasury.govt.nz/financialstatements/year/jun06/cfsyjun06.pdf. The real term calculation is made using the Reserve Bank's online inflation calculator at http://www.rbnz.govt.nz/statistics/0135595.html

[4] OECD, *OECD Economic Outlook number 80* (Paris: OECD, October 2006), http://www.oecd.org/dataoecd/5/51/2483816.xls

[5] As above.

[6] **New Zealand Treasury,** *Half Year Economic and Fiscal Update 2006* **(Wellington: Treasury, December 2006), p 46; and New Zealand Treasury,** *Financial Statements of the Government of New Zealand for the year ended 30th June 2006* **(Wellington: Treasury, December 2006), p 21.**

[7] New Zealand Treasury, *Statement on the Long-term Fiscal Position* (Wellington: Treasury, June 2006), http://www.treasury.govt.nz/longtermfiscalposition/.

[8] http://www.treasury.govt.nz/budget2006/taxpayers/default.asp.

[9] Health and education figures come from New Zealand Treasury, *Briefing to the Incoming Government 2005: Sustaining Growth* (Wellington: Treasury, November 2005), p 33.

[10] Ministry of Social Development, *Budget 2006 Factual Information* (Wellington: Ministry of Social Development, November 2005), http://www.msd.govt.nz/media-information/budget-fact-sheets/2006/working-for-families-extension.html.

[11] New Zealand Treasury, *Budget 2006 Executive Summary* (Wellington: Treasury, May 2006), http://www.treasury.govt.nz/budget2006/summary/03.asp.

[12] OECD, *Economic Survey of New Zealand 2005* (Paris: OECD, 2005), chapter 5 summary, http://www.oecd.org/document/59/0,2340,en_33873108_33873658_35059387_1_1_1_1,00.html

[13] New Zealand Treasury, *Briefing to the incoming Government 2005—Sustaining Growth,* p 37.

[14] Secretary to the Treasury John Whitehead, 'The Imperative for Performance in the Public Sector', speech to the Public Sector Governance Seminar, September 2006, http://www.treasury.govt.nz/speeches/ipps/.

[15] The UK government has established the Centre for the Measurement of Government Activity that now estimates the output of 70% of government production, including health, education, justice and social security. In Australia the Federal government established the Productivity Commission in 1998, which conducts a detailed annual review of government spending.

[16] Ministry of Health, *The Annual Report 2005/2006* including the *Health and Independence Report: Annual Report for the year ended 30 June 2006: Director-General of Health's Annual Report on the State of Public Health 2006* (Wellington: Ministry of Health, October 2006). Page 18 has historical information on Vote Health expenditure; conversions made with the online inflation calculator at http://www.rbnz.govt.nz/statistics/0135595.html.

[17] Ministry of Health, *The Annual Report 2005/2006* (Wellington: Ministry of Health, 2006), p 40, http://www.nzdoctor.co.nz/reports/annual-report0506.pdf.

[18] OECD Health statistics online, http://www.oecd.org/dataoecd/20/51/37622205.xls.

[19] See the Ministry of Social Development, *The Social Report 2006* (Wellington: Ministry of Social Development, 2006), http://www.socialreport.msd.govt.nz/health/life-expectancy.html.

[20] See Ministry of Health, *The Annual Report 2005/2006* (Wellington: Ministry of Health, 2006), p 41 and Statistics New Zealand, *Demographic Trends 2001* (Wellington: Statistics New Zealand, 2001), http://www.stats.govt.nz/analytical-reports/dem-trends-01/part-4-mortality.htm.

[21] Ministry of Health, *The Annual Report 2005/*2006 (Wellington: Ministry of Health, 2006), p 42.

[22] New Zealand Treasury, *Treasury Report: Value for money in health—the DHB sector,* No. T2005/344 (Wellington: Treasury, February 2005), p 2, http://www.treasury.govt.nz/release/healthsector/pdfs/tr05-344.pdf.

[23] Minister of Health Hon Pete Hodgson press release 'Background data—New Zealand's public hospitals busier than ever', 23 August 2006, http://www.beehive.govt.nz/Documents/Files/Hospital%20data.pdf; and Parliamentary written question 403, 2006, http://www.parliament.nz/NR/rdonlyres/3D0F3D4E-AC32-438F-A412-51EC71011A29/19849/00403200600403Attachment5.pdf.
[24] Ministry of Health, *The Annual Report 2005/2006*, p167.
[25] As above, p 168.
[26] As above, p 170.
[27] As above, p 173.
[28] New Zealand Treasury, *Treasury Report: Value for money in health—the DHB sector*, No. T2005/344 (Wellington: Treasury, February 2005), executive summary.
[29] New Zealand Treasury, *Briefing to the incoming Government 2005—Sustaining Growth*, p 39.
[30] See New Zealand Treasury, *Vote Education 1999/2000* (Wellington: Treasury, 1999), http://www.treasury.govt.nz/pubs/bmb/budgets/estimates99/mains/education.pdf; and New Zealand Treasury, *Half Year Economic and Fiscal Update 2006* (Wellington: Treasury, December 2006), p 137, http://www.treasury.govt.nz/forecasts/hyefu/2006/hyefu06-6.pdf; the increase has been from $6.5 billion to $9.6 billion. Conversion into year 2000 dollars done with Reserve bank calculator http://www.rbnz.govt.nz/statistics/0135595.html.
[31] Ministry of Education, 'Education Counts' website, http://www.educationcounts.edcentre.govt.nz/indicators/edachievmnt/index.html. Figures for the year 2000 are from the *OECD Factbook 2006: Economic, Environmental and Social Statistics* (Paris: OECD 2006), http://caliban.sourceoecd.org/vl=1101844/cl=15/nw=1/rpsv/factbook/data/08-01-01-t01.xls.
[32] Ministry of Education, as above, http://www.educationcounts.edcentre.govt.nz/indicators/edachievmnt/index.html.
[33] As above.
[34] Helen Clark, address to 2002 Labour Party Congress, http://www.beehive.govt.nz/ViewDocument.aspx?DocumentID=13967.
[35] Helen Clark, keynote address to Labour Party Conference 2001, http://www.labour.org.nz/HelenClark/speeches_and_releases/speech163/index.html.
[36] Ministry of Health, *Public Health Intelligence Monitoring Report No 11, Suicide Facts 2004–2005 data* (Wellington: Ministry of Health, 2006), p 20, http://www.moh.govt.nz/moh.nsf/pagesmh/5472/$File/suicide-facts-2004-2005.doc.
[37] As above, p 6.
[38] Statistics New Zealand, *Crime in New Zealand: 1996–2005* (Wellington: Statistics New Zealand, December 2006), p 24, http://www.stats.govt.nz/analytical-reports/crime-new-zealand-1996-2005.htm.
[39] New Zealand Police, http://www.police.govt.nz/service/statistics/2006/fiscal/.
[40] Statistics New Zealand, *Crime in New Zealand: 1996–2005* (Wellington: Statistics New Zealand, December 2006), p 26. The biggest increase has been for 'threats and intimidation', but even if we remove this category, the increase is still 5%—a reversal of the pre-2000 trend.
[41] Ministry of Social Development, *New Zealand Living Standards 2004* (Wellington: Ministry of Social Development, 2006), p 133, http://www.msd.govt.nz/documents/publications/csre/living-standard-2004/living-standards-2004-s6.doc. It suggested that the reasons for this decline are likely to be '…differences in [economic family unit] type, assets, life shocks, marital break-ups, restrictions caused by health problems and housing tenure. The results do not establish unequivocally that these variables contribute to the differences but point towards that conclusion', p 161.
[42] As above, p 60.
[43] Ministry of Social Development, *The Social Report 2006* (Wellington: Ministry of Social Development, 2006), http://www.socialreport.msd.govt.nz/economic-standard-living/income-inequality.html.
[44] As above.
[45] New Zealand Treasury, *Briefing to the incoming Government 2005—Sustaining Growth* (Wellington: Treasury, September 2005), p 36.
[46] United Nations, *Human Development Report 2006* (New York: UN, 2006), http://hdr.undp.org/hdr2006/statistics/countries/country_fact_sheets/cty_fs_NZL.html; and United Nations, *Human Development Report 2002* (New York: UN, 2002), http://hdr.undp.org/reports/global/2002/en/pdf/complete.pdf.
[47] Vito Tanzi, 'The economic role of the state in the 21st century', *Cato Journal*, 25:3 (Fall 2005),

http://www.cato.org/pubs/journal/cj25n3/cj25n3-16.pdf.

[48] The social indicators used included life expectancy, infant mortality, literacy, school enrolment, income inequality, suicide, emigration and the prison population.

[49] Michael Cox, *Middle Class Welfare* (Wellington: New Zealand Business Roundtable, 2001), p 128.

[50] OECD, *Economic Survey of New Zealand* (Paris: OECD, 2002), p 8, http://www.oecd.org/dataoecd/2/6/2085349.pdf.

[51] New Zealand Treasury, *Briefing to the incoming Government 2005—Sustaining Growth* (Wellington: Treasury, September 2005), p 36.

[52] See Phil Rennie, *Why Tax Cuts Are Good For Growth* Issue Analysis No 75 (Sydney: Centre for Independent Studies, 2006).

[53] Secretary to the Treasury John Whitehead, 'The Imperative for Performance in the Public Sector', speech to the Public Sector Governance Seminar, September 2006, http://www.treasury.govt.nz/speeches/ipps/.

[54] OECD, *OECD Economic Outlook* No 80 (Paris: OECD, October 2006), http://www.oecd.org/dataoecd/5/51/2483816.xls.

[55] Ministry of Social Development, *The Social Report 2006* (Wellington: Ministry of Social Development, 2006), http://www.socialreport.msd.govt.nz/comparisons/australia.html.

[56] OECD, *Health statistics 2005* (Paris: OECD, 2005), http://ocde.p4.siteinternet.com/publications/doifiles/012006061T02.xls.

[57] OECD, *Education at a Glance 2006* (Paris: OECD, 2006), http://www.oecd.org/dataoecd/7/33/37344676.xls.

[58] For 2006/2007 the government will receive $20.5 billion in PAYE tax; see Treasury, *Half Year Economic and Fiscal Update 2006* (Wellington: Treasury, 2006), Appendix B.1, p 17, http://www.treasury.govt.nz/forecasts/hyefu/2006/hyefu06-7.pdf.