ISSUEANALYSIS

THE CENTRE FOR INDEPENDENT STUDIES

Taming New Zealand's tax monster

Phil Rennie

EXECUTIVE SUMMARY No. 87 • 15 May 2007

- Since 2000 the amount of tax paid by New Zealanders has increased from $32 billion to $52 billion. This is a **$20** billion increase, or **37%** in real terms.
- Tax revenue for 2007 is $7 billion higher than was originally predicted five years ago, representing a huge unexpected bonus for the government.
- Because the tax thresholds have not been adjusted in nine years, more workers have been pushed up into higher tax brackets. This is unfair, given that benefits and pensions are adjusted every year to match inflation.
- A person on the average wage is now paying an extra **$2400** a year in income tax than they were in 2000.
- On a world scale, New Zealand is a high taxing nation. Our total tax burden (36.6% of GDP) is higher than the weighted OECD average of 31%. In particular, it is higher than Australia (31%), our trading partners and most English-speaking nations.
- This level of taxation comes at a high *cost* because of the disincentive effects it has on investment, employment and savings. And the *benefits* it has delivered in terms of spending are disappointing, because most social indicators are unchanged from 2000.
- There are unique pressures on politicians which encourage extra spending. Costs can be dispersed, while the benefits can be focused on certain groups. In addition, the mixed member proportional (MMP) voting system encourages bidding wars between parties.
- There needs to be a proper review of government spending to assess its value for money, and effectively determine the costs and benefits. These kinds of benchmarks should be built into all new spending projects *before* they begin, not afterwards.
- There needs to be a greater focus on the *outcomes* of spending rather than just the inputs or outputs. This would allow for a better quality debate on the proper role of the state, and the merits of tax cuts versus social spending.
- The annual $2 billion slush fund for 'unallocated spending' should be scrapped because it weakens fiscal discipline. Arbitrary spending targets should also be scrapped; governments should define what they want to achieve rather than how much they want to spend.
- Top-down controls on government spending, such as constitutional limits on tax and spending are worth debating. However, it would be undemocratic to remove too much of the government's flexibility.

Phil Rennie is a policy analyst with the New Zealand Unit of The Centre for Independent Studies

Introduction

New Zealand has been on an unprecedented tax and spending binge since the year 2000. Real taxation per capita is higher now than it was under the Muldoon government of 1984, and is forecast to increase even more over the next four years.

Many taxpayers are likely to be unaware of just how much extra tax they are paying. Tax revenue has been far ahead of all forecasts, meaning billions of bonus dollars for the government.

There are three main reasons why this is a serious issue for New Zealand:

- The high economic cost it imposes. Taxation restricts growth, investment and employment, while government spending is now a major contributor to rising interest rates.
- The spending is delivering poor results. Most social indicators (such as life expectancy, literacy, suicide and poverty) are unchanged from 2000, despite massive funding injections.
- An ageing population will put severe pressure on New Zealand's finances over the next 50 years. Already health and superannuation are the single biggest items on the government budget.

New Zealand has been on an unprecedented tax and spending binge since the year 2000

This reflects a serious lack of spending discipline by politicians. Higher public spending seems to have become an end in itself, rather than a means to an end, as it should be.

The previous papers in this series by CIS have outlined these problems in great depth.[1] The challenge now is what to do about it.

The first part of this paper briefly recaps and updates just how much tax New Zealanders pay, and how much it has increased in recent years. The rest of the paper looks at why it has increased, and ideas on how to improve the spending discipline of politicians.

How much tax do we pay?

Last year's paper by CIS, *Are New Zealanders Paying Too Much Tax?,* considered New Zealand's tax burden from a number of different measurements, and found that the amount of tax paid by New Zealanders had increased by 50% since 2000.

Over the last 12 months the amount of tax collected has again surged, forcing Treasury to revise its earlier forecasts. They now predict that core crown tax revenue will reach **$52 billion** for 2007, which is a 62% nominal increase from 2000. Adjusting for inflation gives a 37% real increase.[2]

This figure equates to 32% of GDP. Overall, including local government, the OECD's most recent estimate of New Zealand's total tax burden is **36.6%** of GDP.[3]

How this compares on a world scale

At first glance our tax burden might seem reasonable compared with other countries. In 2004 (the most recent comparable year) New Zealand's tax made up 35.6% of GDP, slightly below the OECD average of 35.9%.[4]

However there are two important caveats.

Firstly, the raw OECD average measures small countries like Luxembourg equally with the United States, Japan and other large economies. If we weight the OECD figures for the size of economies then the average is closer to 31%, well below New Zealand's score.[5]

Total tax revenue as a percentage of GDP (2004)

OECD average (unweighted)	35.9%
OECD average (weighted)	31%
Sweden	50.4%
Denmark	48.8%
United Kingdom	36%
New Zealand	**35.6%**
Australia	31.2%
Ireland	30.1%
USA	25.5%
Singapore	22%
European OECD average	39.7%
Non-European OECD average	28%

Source: OECD Factbook 2007, and IRD briefing to Minister of Revenue 2005

Since 2000 the amount of tax paid by New Zealanders has increased from $32 billion to $52 billion

As this table shows, there are also important regional differences. European countries tend to be more highly taxed (and economically stagnant), with an average ratio of 39.7%.[6]

The rest of the OECD is much lower, with a non-European average of 28%. Countries like the USA (25.5%), Australia (31.2%) and Ireland (30.1%) are much lower and much more prosperous.[7]

Finally, the OECD is only a sample of 30 countries. Many of our regional trading partners have much lower ratios, like Singapore and Hong Kong, who were at 22% and 15% respectively in 2002.[8]

New Zealand is clearly a much higher taxing (and spending) nation than our nearest neighbours and our main trading partners.

Why are we paying so much more tax?

Since 2000 the amount of tax paid by New Zealanders has increased from $32 billion to $52 billion.[9] How is this possible when the only major tax increase has been a new rate of 39% for income over $60,000?

The short answer is because of healthy economic growth in the first half of this decade, which means more people working, spending, earning higher incomes and therefore paying more tax. In particular:

- Unemployment has fallen by 82% since 2000, from 161,000 to just 29,000. This means fewer people receiving unemployment benefits and more income tax received.[10]
- A healthier economy means more people spending, which means more tax revenue from GST and excise levies.
- Company earnings have greatly increased. As a result, corporate tax now makes up 17% of the government tax revenue compared with 12% in 2000.[11]
- Higher wages are pushing people into higher tax brackets. Over time people's wages increase, be it from promotions, new jobs, working extra hours, or from regular pay rises to meet the cost of living. However, since our thresholds have not been adjusted for inflation, in real terms our tax level subtly increases each year. This is known as 'bracket creep'.

Bracket creep is one of the most insidious ways in which a government can increase its tax take without a mandate.

For example, a person on the average wage in 2000 ($36,000) paid **$6,990** in personal income tax a year. If their salary rises to match inflation, in 2007 they will be earning $43,000 and be no better off in real terms. Yet they will be paying **$9,390** in tax—an extra $2400 a year.[12]

This means that a person on the average wage is now paying 22% of their income in tax compared to 19% in 2000.

The impact is harshest on those earning around $60,000 and paying the 39% rate. In 2000 this only applied to the top 5% of earners, but today the figure is over 12%, or 22% of full-time workers, affecting 363,000 people.[13]

A person on the average wage is now paying 22% of their income in tax compared to 19% in 2000

Clearly, $60,000 is not worth as much as it was in 2000. This top rate now captures workers who were never meant to be affected, such as nurses, police and teachers.

This is a particular double standard given that the government annually adjusts all benefits and pensions for inflation. Even more galling for taxpayers is the fact that excise duty on petrol, tobacco and alcohol is also increased every year in line with inflation.

In 2005 the government announced plans to adjust the tax thresholds for the 2008 budget, but in recent times the Minister of Finance has publicly questioned whether such an adjustment will go ahead.[14]

Because of all these factors tax revenue for 2007 is $7 billion higher than was originally predicted five years ago, representing a huge unexpected bonus for the government.[15]

Why does the government keep growing?

This tax windfall has allowed the government to greatly increase its spending and still run large budget surpluses. Last year the surplus reached a record high of $11.5 billion, and this year it has already reached $6 billion after just nine months of the year.[16]

Last year a $1 billion package to reform business tax was announced, but any other moves to return this excess taxation to taxpayers have been staunchly resisted. The government has chosen to spend the rest of this windfall instead.

It is unlikely that public opinion is driving this appetite for taxing and spending. A recent study of public values by Massey University found that 'in general, most New Zealanders (60%) are in favour of cuts in government spending, but in specific areas there are marked differences in support for more or less government spending.'[17] There was majority support for more spending on health, education and policing, but little sympathy for other areas.

Questions on tax produced similar results. Sixty-five per cent believe taxes on low-income earners are too high, with 70% agreement for middle-incomes and 50% for higher incomes.[18]

Clearly, the present government has a commitment to rebuilding the capacity of the state. A Labour-lead government has been elected three times with the mandate to rebuild the public sector after what it calls the 'slash and burn policy of the 1980s and 1990s.'[19] However the exact level of tax and spending required to meet the government's economic and social goals has never been specified.

Spending by its very nature is attractive to politicians. It can be concentrated in certain groups with very visible benefits, and once a scheme is in place the recipients often see it as an entitlement. Therefore it is politically difficult to cut funding or even reassign it.

This was clearly seen in New Zealand in 2000, as a Treasury presentation at the time noted:

> It was interesting in the last budget round that out of 500 budget proposals, only a handful offered up savings, particularly given that there was a new government in office, which may have wished to discontinue or reprioritise some existing programmes. [20]

As Ronald Reagan once said, 'No government ever voluntarily reduces itself in size … a government bureau is the nearest thing to eternal life we'll ever see on this Earth.'[21]

In contrast, the cost of spending (taxation) is more widely dispersed, so it is often less politically rewarding for a government to reduce taxes. There are fewer and less vocal advocates for taxpayers than there are for beneficiaries of specific government programmes.

The OECD has also identified three unique New Zealand characteristics which help explain a lack of control over government spending. They point to a fragmented budget process (lots of government agencies with overlapping goals), a lack of review of existing spending (more on this below) and a trend away from market mechanisms to deliver social services.[22]

In addition, evidence from around the world shows that government spending tends to be higher under a proportional representation electoral system (such as MMP). Some economists have estimated that proportionally-elected governments spend around 5% more as a percentage of GDP than majoritarian governments.[23] Partly this is because of the deals required to form coalition governments, which can resemble bidding auctions. Smaller parties often demand expensive policy 'trophies' to differentiate themselves.

In 1994 the Fiscal Responsibility Act was passed with the aim of imposing greater fiscal discipline on governments. To some extent, it has worked well. The budget process is now more transparent, with regular updates published by the government. New Zealand has enjoyed consistent surpluses and falling debt since 1994, and the basic model has been widely praised and adopted around the world.

Clearly though, the Act has not limited the rise in government taxation and spending. It has had little impact on either the quantity or quality of government spending, as various reports by the OECD have warned.[24]

Therefore, the only real check and balance on the government's spending is political willpower. Yet the factors outlined above show how the balance of power between taxpayers and politicians is clearly biased in favour of spending.

For this reason, we need to consider institutional and policy changes to make spending decisions more transparent, and give taxpayers more rights and protection. The rest of this paper presents some ideas on how to achieve this.

We need to consider institutional and policy changes to make spending decisions more transparent, and give taxpayers more rights and protection

Ideas to control government spending

Have higher criteria for new spending

The cost of raising a dollar in tax is never exactly $1, because taxation alters people's economic behaviour and destroys potential wealth. It negatively impacts on decisions around investing, employing people, the number of hours worked and whether to enter the workforce in the first place. Economists estimate that for every dollar spent the cost to New Zealand is around $1.20.[25]

Because of this, any proposed new spending should be able to show it delivers benefits worth more than $1.20 for each dollar spent. Last year the Treasury recommended exactly this approach in a guide to public servants, but there is little evidence that it has been adopted. [26] One solution could be for the government to include this calculation with all new spending projects.

Define the goals of spending in advance

New Zealand's public service reforms in the 1980s were world-leading. The Public Finance Act in 1989 changed the focus from inputs (how much we spend) to outputs (what is produced), and gave departments responsibility for achieving their goals. There is widespread agreement that this has improved the efficiency and accountability of the public service.

However, concerns remain over what is actually achieved by this spending—that is, the outcomes. The OECD warned of this in 2002:

> Outcome management has been underdone, partly because managers have had insufficient incentives … and partly because of insufficient push from the centre. The balance between efficiency and effectiveness could be improved by focussing more on outcomes.[27]

This concern has been echoed by the Treasury, various think-tanks and even the Public Service Association.[28]

A big part of the problem is when the outcomes are not defined in advance, which leads to unclear guidelines and a lack of accountability. This has been seen with various Auditor-General reports into grant programmes, such as the Community Employment Group and New Zealand Trade and Enterprise. Instead, each new spending proposal should have its outcome goals explained *before* the programmes begin.

New projects or funding injections should have a temporary lifespan. If they do not achieve certain goals after a period of time then the funding should automatically 'self-destruct'

The OECD suggests that targets should be 'SMART'—specific, measurable, achievable, relevant and timed. As well as explaining the outcomes sought, policies should explain exactly how success will be measured, so that the review process is built in. Otherwise it is much harder to try and assess spending after the fact.

This lack of set goals leads to poor policy. The OECD noted in 2002 that 'Decisions that are made on the basis of political and economic judgement, but with little supporting evidence, crop up in several places.'[29] This applies especially to rushed policy made during election campaigns. For example, Labour's interest-free student loan policy in 2005 was made with the exact cost unclear and without asking Treasury to consider alternative measures to help students.[30]

Likewise, New Zealand First leader Winston Peters demanded a rise in the level of superannuation and an extra 5000 police as the price of his support for the government. As a *New Zealand Herald* editorial argued, there was no rational focus on outcomes:

> These are all policies Mr Peters has plucked out of his head. There are no studies to support them, no reliable research on their practicality or value and no pressing need for them. Nor is there likely to be any proper assessment of them if they are the price of seven votes in Parliament that Labour will sometimes need.[31]

Sunset clauses

Government funding should not be eternal. If results are not being produced, or if resources could be better used elsewhere, then funding should be discontinued. There is no point throwing good money after bad money.

To make this easier for politicians, new projects or funding injections should have a temporary lifespan (say three years). If they do not achieve certain goals after a period of time then the funding should automatically 'self-destruct'.

Another benefit of this would be to pressure the responsible bureaucrats to ensure the programme achieves it goals, because their jobs would depend on it.

Remove arbitrary spending targets

Coalition governments are a fact of life in New Zealand under MMP. However an unintentional side-effect has been the bidding wars that result from coalition negotiations, with government spending usually forced up as a result. This is another clear example of governments favouring inputs over outputs and outcomes.

For example, in 1996 the National and New Zealand First coalition agreement allocated an extra $5 billion of public spending. This money wasn't allocated until later, nor was its purpose explained. As economist Bryce Wilkinson says, 'The increase was driven by politics, not analysis.'[32]

The same occurred in 1999 when the incoming Labour/Alliance coalition government set a cap of $6.1 billion for new spending. Once again there was no value-for-money assessment. Loose goals were specified, such as rebuilding the public service and closing the gaps between Maori and non-Maori, but there was no analysis to show why or how $6.1 billion was the exact figure needed to achieve that goal.

This reflects a viewpoint among politicians that all public spending is automatically 'good', no matter what it is spent on.

This attitude needs to change. Instead of simply plucking an arbitrary figure out of thin air, coalition agreements should specify what the exact problems are that they want to solve, explain why government intervention is the best answer, and provide at least a rough costing of their solutions.

Regular reviews of existing spending

As well as reviewing new spending, there should be regular reviews of existing programmes.

Reviews of spending would help motivate public sector performance and uncover wastage

The OECD recommended this in 2002, noting that 'Although the budget process forces a detailed examination of new spending proposals, this represents only 5% of total expenditure. There is no centrally driven, systemic or regular review of the other 95%.'[33]

The Treasury has also urged the government to take this issue more seriously:

> One approach would be to conduct periodic detailed spending and performance reviews in priority areas, focusing on how to best achieve government's objectives … They would be substantial exercises and conducted as needed, but no more frequently than once every three years in a sector.[34]

These kinds of reviews would again help motivate public sector performance and uncover wastage. As with new spending, existing programmes should have to deliver benefits on a 1:1.2 ratio to justify the deadweight losses they incur.

Treasury did begin a wide-ranging review of government spending last year, but progress has been slow and the terms of reference are narrow.

Associate Finance Minister Trevor Mallard has been at pains to emphasise that the review is about reprioritising spending, rather than 'cost-cutting'. He says the reviews will focus more on management, such as '… systems and processes to be improved.'[35]

Prime candidates for review should be policies which encourage 'churning', whereby government spending is recycled straight back to the people who paid the tax in the first place. This spending is wasteful, inefficient and does little for equity. A prime example is the Working for Families scheme, which provides benefits for families earning well over $100,000. Previous papers by CIS have outlined the extent of this problem in New Zealand and possible solutions.[36]

Better measurement of results

Of course, to achieve results from our spending we need to be able to measure them. This is an area where New Zealand lags behind comparable countries.

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.'[37]

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'[38] and that 'We also need to get better at improving the information we have on the effectiveness of government interventions and social services provision.'[39]

Of course, measuring the results of government spending is no easy task. Many services are difficult to quantify in dollar terms, but this is a task that other countries—especially Australia and the UK—have tackled far more effectively.

The government should scrap the annual provision of $2 billion for new spending in each year's budget

Measuring success in the UK and Australia

In the UK the newly-created Centre for the Measurement of Government Activity now estimates the output of 70% of government production, including health, education, justice and social security.

Every three years the UK Treasury reviews the budgets of government departments and signs Public Service Agreements (PSAs), which set out clear targets for achievement and improvement. In return, departments are given three year budgets which allow for greater flexibility to reach their goals.

In addition, every 10 years the UK government has instituted a Comprehensive Spending Review, which evaluates the results of new spending introduced during the preceding period.

In Australia the federal government established the Productivity Commission in 1998, which now conducts an annual review of government spending. This involves developing detailed performance indicators for government services, and analysing how successful departments are in achieving them. The 2006 review managed to cover 61% of all government expenditure.

For example, in education the key measurements include participation, retention, literacy and numeracy. The reports also compare the performance of government schools with private schools.

Better information on the effectiveness of government action would be an important check and balance on the power of the executive, allowing the public to better scrutinise government action. It would allow for a better quality debate on the proper role of the state, and the merits of tax cuts versus social spending.

While it may be difficult to start with, the experience in Australia shows that we shouldn't be discouraged. Even modest reforms put pressure on departments to lift their game and provide better information over time.

A new government department wouldn't be necessary for this. Instead, Treasury's monitoring role could be boosted.

Remove the unallocated provision

The government should scrap the annual provision of $2 billion for new spending in each year's budget. This is a licence for politicians to find new ways to spend money, whether it is needed or not. Worse, it is cumulative; at the end of every year it is permanently added to the budget. In 2008 (an election year) the allowance will be temporarily raised to $3 billion.

It may be necessary to have a small contingency fund covering emergencies and unexpected costs, but having it as high as $3 billion is unnecessary. In the late 1990s the relevant figure was just $200 million a year.[40] There is no good reason why it should be cumulative either.

Eliminating this hypothetical spending would be painless, because it hasn't taken place yet; no one (not even the government) knows what it will be spent on. Removing this means forecast expenditure could fall by $4.9 billion by 2009.[41] Any new spending required on top of this should be allocated to specific policies with set outcomes.

This change would also put pressure on Ministers and departments to make the most efficient use of their budget, and reallocate money to meet any new demands.

End bracket creep

Every year the government adjusts benefit and pension levels to at least match inflation, as recognition of the rising cost of living. There is no reason why the same should not be done for tax thresholds.

As outlined earlier, 'bracket creep' means that in effect our tax rates increase subtly every year. More and more workers are now hit by higher tax brackets, despite being no better off in real terms.

It would be preferable to have flatter tax rates, as the government's own tax review of 2001 strongly recommended. This would boost investment and employment, remove distortions in the system, and still easily generate enough revenue to meet spending commitments.

However, if this is impossible, then as a minimum, the tax thresholds should be automatically adjusted every year—not every three years, as the government has suggested.

This is a simple measure, used by other countries around the world, which would help protect the rights of taxpayers.

In New Zealand our tax revenue and budget surpluses have been consistently ahead of all forecasts, representing a serious windfall for politicians at the expense of taxpayers

Top-down controls?

The weakness of all the ideas outlined so far is that none of them are binding. All of these ideas depend upon the willingness of politicians to discipline themselves, a quality which has not been evident in recent times.

Understandably, frustration is building. This has lead to calls for 'top-down' controls, such as constitutional limits on taxation and requiring public referendums for new spending projects.

The ACT party and the Business Roundtable promote the idea of a 'Taxpayer Bill of Rights', which would cap government spending at its current level, plus an annual adjustment to cover inflation and population growth. Any additional increase in tax or spending would require public assent through a referendum. As Roger Kerr explains, such a move would limit the discretion of governments:

> A key virtue of a [tax and expenditure limitation] is that it shifts the power to increase taxes and spending from politicians to voters. It would be difficult to exaggerate the desirability of asserting the principle that politicians should not be spending taxpayer's money without their general agreement.[42]

There are many different forms such a rule could take. Questions to consider include:

- Should the rule be statutory (passed as legislation) or constitutional (perhaps entrenched, with a super-majority required to change it)? Or should it just be a self-imposed, public goal?
- Should spending be limited, or taxation, or both?
- Could the rule be more modest, and instead of limiting government spending, simply require the government to return excess taxation (either the surplus, or revenue that is above initial forecasts)?
- Should capital spending be included?
- How would it deal with emergencies that require extra spending (for example, natural disaster or war)?
- Do these limits actually work in practice? These kind of rules are common in US states, where voters have consistently rejected tax and spending increases.[43] At a national level though, the OECD is less impressed, noting that they can be difficult to enforce and don't encourage the best use of resources.[44]

A statement of intent from a government on how they plan to use excess revenue would be a good start. In New Zealand our tax revenue and budget surpluses have been consistently ahead of all forecasts, representing a serious windfall for politicians at the expense of taxpayers. Anything which draws more attention to this issue should be welcomed.

However, any kind of legal limit on government tax and spending is more troubling. At a sub-national level (such as states and local bodies) this would be acceptable, since much of their power is delegated from the federal level. But at a national level this would be too much of an infringement on parliamentary sovereignty.

The appropriate size of the state is one of the oldest and most fundamental questions in philosophy. The answer should not be set in stone with legislation; rather it should be decided by voters every three years.

Another way to think of this issue is if a government tried to impose a *minimum* level of taxation. This would be as repugnant to as many people as a maximum level.

Worse, it would be an admission of defeat in the public debate over the size of the state. It would be like trying to change the rules of the game after your team has lost. The debate should not be conceded so easily.

The longer New Zealand tolerates poor quality and poor discipline in spending, the more we will lose out both economically and socially

Conclusion

There is little doubt that fiscal discipline has slipped in New Zealand over the last ten years. The quantity of government spending is up, the quality is down and we are all poorer as a result. Years of reports and research from the OECD, the IMF, CIS and the government's own advisers in the Treasury confirm this beyond reasonable doubt.

The proposals in this paper are not radical, but would be a start in improving the discipline of politicians and protecting the rights of taxpayers. They could help make spending decisions more transparent and accountable, without going as far as top-down limits.

There are two main starting points this paper recommends.

Firstly, a proper review of existing spending should be a priority. Out of $55 billion there is bound to be some wastage and spending which doesn't meet a simple cost-benefit test, especially since discipline has been so lax in recent years.

Secondly, and perhaps more importantly, is the need to have tighter discipline on new spending. A greater focus on outcomes, monitoring and accountability will help achieve this. This path is also more politically acceptable, because (as yet) there are no beneficiaries of the spending with vested interests to complain.

By way of illustration, the government is planning to spend an extra $9 billion over the next four years.[45] If spending was held at the level of inflation instead (currently 2.5%) it would only cost only half of this.

Therefore, by 2011, an extra $4.5 billion a year would be available for tax cuts. This could allow for a flat rate of 26% for income over $38,000 and 15% for income below, with no cuts to any spending.[46]

Given the healthy budget surplus, this year represents a golden opportunity to start making changes. The longer New Zealand tolerates poor quality and poor discipline in spending, the more we will lose out both economically and socially.

Endnotes

1 See the CIS website www.cis.org.nz for the previous papers in this series.

2 New Zealand Treasury *Half Year Economic and Fiscal Update* (Wellington: Treasury, December 2006), p 41.

3 OECD New Zealand Statistical Profile 2007: http://stats.oecd.org/wbos/viewhtml.aspx?queryname=326&querytype=view&lang=en.

4 OECD Factbook 2007: Economic, Environmental and Social Statistics (Paris: OECD, 2007): http://ocde.p4.siteinternet.com/publications/doifiles/302007011P1T097.xls.

5 Inland Revenue Department *Briefing for the Incoming Minister of Revenue* (Wellington: IRD, September 2005), p 20.

6 OECD Factbook 2007: Economic, Environmental and Social Statistics (Paris: OECD, 2007): http://ocde.p4.siteinternet.com/publications/doifiles/302007011P1T097.xls.

7 As above.

8 IRD *Briefing for the Incoming Minister of Revenue*, p 21.

9 Core Crown tax revenue. 2000 figure: Michael Cullen answer to written Parliamentary question 483 (15 February 2006). 2007 figure from New Zealand Treasury *Half Year Economic and Fiscal Update*, (Wellington: Treasury, December 2006), p 41.

10 Hon David Benson-Pope press release, 'Unemployment Benefit Numbers Drop 35%', 11 April 2007.

11 Treasury Key Facts for Taxpayers 2000 and 2006: http://www.treasury.govt.nz/budget2006/taxpayers/default.asp and http://www.treasury.govt.nz/budget2000/taxpayers/default.asp

12 As above.

13 As above, and Statistics New Zealand 'Household Labour Force Survey' (Wellington: SNZ, December 2006): http://www.stats.govt.nz/NR/rdonlyres/1EB20097-8D29-4B10-B467-E9EFDFE94E57/17713/hlfsdec06qtralltables1.xls.

14 See 'May budget will be tight, Cullen says', *New Zealand Herald*, 14 February 2007.

15 Answer to written Parliamentary question 9020 (2005).

16 New Zealand Treasury press release 'Financial Statements of the Government for the Nine Months Ended 31 March 2007', 10 May 2007.

17 Massey University, *The Role of Government: International Social Survey Programme* (Palmerston North: Massey University, April 2007), p 2 http://marketing.massey.ac.nz/files/RoleofGovt.pdf.

18 As above, p 2.

19 See 'Labour's spending binge under fire', *Dominion Post*, 16 March 2007.

20 Alan Bollard, Simon MacPherson, Alan Vandermolen, 'The governments fiscal position and its impact on the public sector', New Zealand Treasury, Public Sector Finance Forum, 22 August 2000, http://www.treasury.govt.nz/speeches/publicsector/sp-psff00.pdf

21 Ronald Reagan 'Rendezvous with destiny', 27 October 1964, http://www.reaganfoundation.org/reagan/speeches/rendezvous.asp.

22 See David Rae, *Next Steps for Public Spending in New Zealand: The Pursuit of Effectiveness* (OECD: Paris, 2002), OECD Economics Department Working Paper No 337.

23 Torsten Persson and Guido Tabellini, 'Constitutions and Economic Policy', *Journal of Economic Perspectives* 18:1 (Winter 2004), p 79.

24 See *Economic Survey of New Zealand 2007* (Paris: OECD, 2007), and David Rae *Next Steps for Public Spending in New Zealand: The Pursuit of Effectiveness* (OECD: Paris, 2002), OECD Economics Department Working Paper No 337.

25 See Phil Rennie, *Why tax cuts are good for growth*, Issue Analysis No 75 (Sydney: The Centre for Independent Studies, October 2006).

26 New Zealand Treasury *Cost Benefit Analysis Primer* (Wellington: Treasury, December 2005) http://www.treasury.govt.nz/costbenefitanalysis/.

27 David Rae, *Next Steps for Public Spending in New Zealand: The Pursuit of Effectiveness*, p 13.

[28] See previous papers in this series at www.cis.org.au; New Zealand Treasury, *Briefing to the Incoming Government 2005—Sustaining Growth* (Wellington: November, 2005), and David Coats, *Reviving the Public: A New Governance* (Wellington: Public Service Association, October 2006).

[29] David Rae, *Next Steps for Public Spending in New Zealand: The Pursuit of Effectiveness*, p 12.

[30] 'Fourth try at costing loan policy', *New Zealand Herald*, 15 December 2005.

[31] 'Fiscal sense lost in push for support', *New Zealand Herald*, 15 October 2005.

[32] Bryce Wilkinson, *Restraining Leviathan* (Wellington: New Zealand Business Roundtable, November 2004), p 9.

[33] David Rae, *Next Steps for Public Spending in New Zealand: The Pursuit of Effectiveness*, p 13.

[34] New Zealand Treasury, *Briefing to the Incoming Government 2005—Sustaining Growth*, p 40.

[35] Trevor Mallard press release, 'Results of public services reviews released', 20 December 2006.

[36] Previous papers by CIS have considered this issue in more depth, and possible solutions. See Peter Saunders, *Reinventing New Zealand's Welfare State* (Sydney: The Centre for Independent Studies, March 2007).

[37] 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.

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

[39] 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/.

[40] New Zealand Treasury, *Budget Economic and Fiscal Update1997* (Wellington: May, 1997), p 48.

[41] New Zealand Treasury, *Half Year Economic and Fiscal Update* (Wellington: December, 2006), p 47.

[42] Roger Kerr speech, 'The Fiscal Responsibility Act: A Stocktake', September 2004.

[43] See Bryce Wilkinson, *Restraining Leviathan* for more discussion of this issue.

[44] Various authors, *Enhancing the Cost Effectiveness of Public Spending: Experience in OECD Countries*, (Paris: OECD, 2003), OECD Economic Studies, No 37 2003/2.

[45] New Zealand Treasury, *Half Year Economic and Fiscal Update* (Wellington: Treasury, December 2006), p 47.

[46] New Zealand Treasury's Ready Reckoner, available at http://www.treasury.govt.nz/readyreckoner/reckoner.asp.