



Strong Public Services
make a Strong
New Zealand

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New Zealanders have one of the world's highest levels of satisfaction with public services. Our public services give New Zealanders control of strategic assets that enable us to build a strong economy and prosper in a volatile world. Publicly owned services also mean we avoid user charges, like road tolls, and we don't send millions of dollars offshore to build foreign economies, not ours.

New Zealanders rate public services highly

In 2007, the State Services Commission interviewed more than 6,500 New Zealanders. It found that we have one of the world's highest levels of public satisfaction with public services: 68% of those surveyed said they were satisfied with our public services and 75% said our public service workers were competent¹.

Public and economic value from New Zealand control

Public services also help the economy. For example, in 2008, PricewaterhouseCoopers analysed ACC and found it "has afforded New Zealand's society four decades of added economic and social value." It found that ACC contributed \$315 million a year in economic benefits with faster claim resolution and administration costs that are up to four times lower than Australian insurance companies that provide accident compensation.

In contrast, consider the costs of privatisation. The rail system, after years of private ownership, is in a shambles; Auckland traffic suffers from little public transit investment in the 1990s; the public again has a majority share in Air New Zealand, and it's making money, after years of private debt. Only recently have we begun to re-invest in public assets that keep the economy moving forward, including road and public transit investments; and returning rail and ferries to public control.

These investments take taxes. But alternatives are not cost-free. Privatised models of infrastructure come with high user-pays, like road tolls. In Australia, the Sydney Morning Herald said the privatised, toll-based road model, "has one foot in the grave and the other on a banana peel" after major projects have gone sour.

The British government was forced to spend about \$5 billion after companies fixing London's underground went bankrupt. In Canada, privatised school contracts were cancelled after cost over-runs; in the United States, the Government Accountability Office (GAO) voiced concerns about excess profits being made through toll roads with 99 year leases to private companies.

In contrast, working in the public good is helping New Zealand reduce reliance on foreign funding sources—and higher borrowing costs in volatile world financial markets. The new KiwiSaver scheme, for example, not only helps people save for retirement, it provides larger pools of domestic capital.

¹ Source: *Public Satisfaction with Service Quality, 2007*. 66% of New Zealanders were satisfied with public services; 18% were dissatisfied and 16% were neutral. 75% of New Zealanders thought public sector workers were competent; 11% did not and 14% were neutral.

Alternative: exporting wealth and building economies elsewhere

When Kiwibank was established in 2002 almost \$3 billion a year in profit flowed across the Tasman to Australian-owned banks. Since then, Kiwibank has made steadily increasing profits that have stayed in New Zealand. The bank's CEO believes keeping fees and rates low, and forcing foreign-owned banks to follow suit, has helped keep hundreds of millions of dollars in New Zealand and in New Zealanders' pockets².

Yet, rather than learning from Kiwibank's success, there's a push to open ACC to private competition, despite impartial evidence that shows there is no need to do this. The result of this privatisation of accident compensation will be that more of New Zealand's worker and injury rehabilitation services will be delivered for foreign profit by companies with no incentive to deliver the care that injured people need.

The core question facing New Zealanders is not whether to pay less or more. It's whether to pay less to the government in taxes, but more in user-pays, with profits leaving New Zealand rather than building a stronger economy here.

2 Source: *Sunday-Star Times*, 21 February, 2008

New Zealand's public service in context

By number of workers, share of the economy, or per capita size, our public service is smaller than it was in the 1980s. Some rebuilding was needed after the cuts and privatisation in the 1990s. But the public service is now smaller than it was in 1990 despite the population increasing by 700,000 and greater demands being placed on public services.

New Zealand's public service in historical context

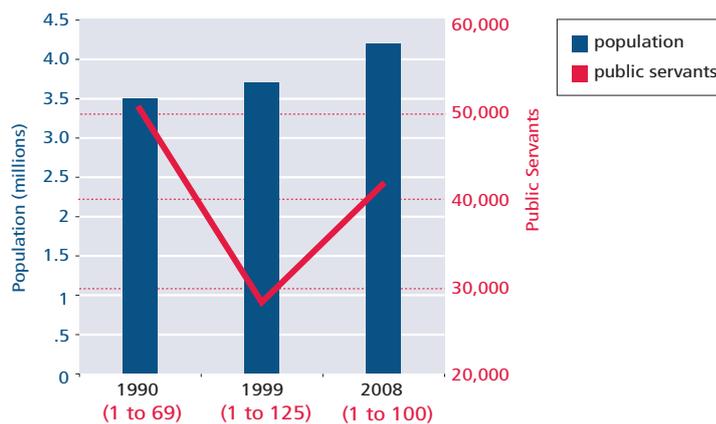
New Zealand has changed much since the opening up of the economy in the 1980s. During the 1990s, public services were regularly weakened through privatisation that left us with inadequate infrastructure. Assets were often stripped by foreign owners.

Where New Zealand's public service has been is as relevant as where it's going. In the mid to late 1990s, for example, the public service was slashed to its lowest level since the end of the Second World War. The growth of the public service since then has been driven by the need to rebuild our public services that were so run down there were delays counting the vote in the 1999 election because we lacked experienced public servants.

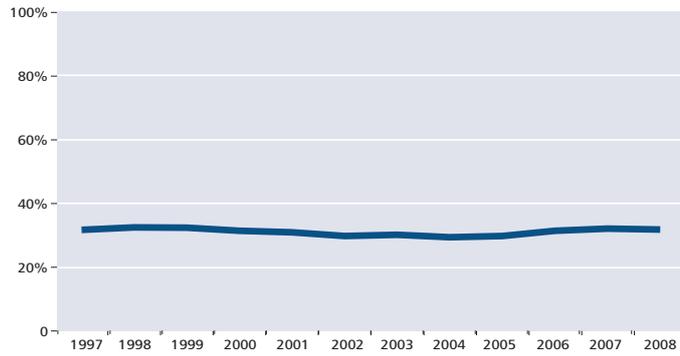
In 2007, the latest year available, the State Services Commission says there are 42,047 full time jobs in the public service. Putting that in context is complex. Our public service is bigger than in much of the 1990s, but smaller than much of the 1980s.

In recent years, the public service has grown. Examples of increases are the Inland Revenue Department which has hired staff to launch and administer the KiwiSaver programme used by more than 800,000 people. The Department of Corrections has also hired people to staff new prisons and to provide probation services.

Size of public service, and public servants per capita



NZ government spending by share of GDP

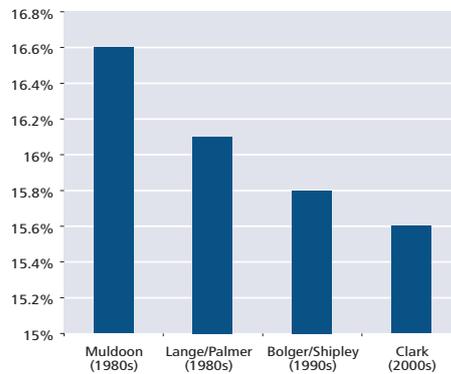


Source: 2008 Budget

Since 1999, New Zealand’s public service has grown, but no faster than the expansion of the New Zealand economy. In 2008, core government spending will be 31.8% of GDP—slightly lower than the 32.4% in 1999.

Focusing on services like health and education, but excluding transfers to people, such as superannuation, relative government spending today is the lowest it has been in more than 20 years.

Share of GDP on core public services



Source: Brian Easton, New Zealand Listener, June 28, 2008

New Zealand's public service in an international context

The New Zealand public service is slightly smaller than Australia's. An ANZ Bank report notes New Zealand spends less on government than the average in industrialised democracies (the OECD).

Comparisons with Australia

New Zealand often compares itself most with Australia. But different systems can make direct comparisons difficult.

This is true when we compare tax rates in New Zealand and Australia. Our income taxes are slightly higher than Australia's for most income brackets, though slightly lower at the top bracket. But Kiwis don't pay the superannuation and medicare levies that Australians do; or stamp taxes and capital gains tax on home purchases. In fact, for a single person, New Zealand's 'tax wedge' is 21.5%, compared to 27.7% in Australia and 37.7% in the OECD.

How about comparing the size of the public service in New Zealand and Australia? The key difference is that Australia has two layers of public service: federal and state.

In Australia, the state and territory governments deliver things like health, education at school and tertiary level, roading, and a wide range of services that New Zealand's central government provides. Each state also has a public service. The fairest comparison is to add Australia's federal government with its state and territorial ones, then measure this against New Zealand.

As you'd expect, New Zealand's central government is relatively bigger. 42,047 people work in our public service; 155,482 people work in Australia's. On a per capita basis, that's 0.98% in New Zealand and 0.73% in Australia.

But Australia's public service grows significantly when we add state and territorial governments. In total, 768,575 people work for them, including 54,492 people in the states' core public services. That's 0.26% of the population³.

If the federal, state and territorial public services are combined, 0.99% of Australians work in the public sector—compared to 0.98% in New Zealand.

Broader international comparisons

Comparing New Zealand's public sector with other developed countries is often inexact. Each country has different systems, and how the OECD calculates government spending differs from how New Zealand does.

But trends can still be seen, like government spending as a percentage of GDP. Compared to the 29 industrialised democracies in the OECD, New Zealand has had below-average government spending since 2000. In 2007, government spending was 40% of GDP; it was 40.3% OECD-wide⁴.

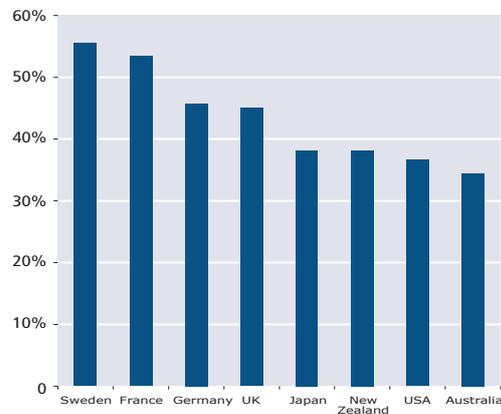
Broader international comparisons are difficult given different systems and classifications of spending. But whatever the indicator, New Zealand's public sector is not larger than most industrialised countries—and in many cases is considerably smaller.

³ Source: The annual public sector reports of the six Australian states and two territories, 2006 and 2007. Three states—New South Wales, South Australia and Victoria—provide numbers for the core public service (i.e. excluding workers like nurses, teachers, professors). The figure of 54,492 workers is obtained by using the average from the three states whose annual reports are most specific and applying it to all states and territories.

⁴ Source: OECD, ANZ Bank. Note: How the OECD allocates spending may differ from New Zealand definitions given the wide range of countries it compares.

In 2006, for example, New Zealand was tied for 20th of 29 industrial democracies on government revenue's share of the economy. It was smaller than 15 of the 18 OECD countries in western and northern Europe; three of the four countries in eastern Europe; and Canada.

Government revenue as share of GDP



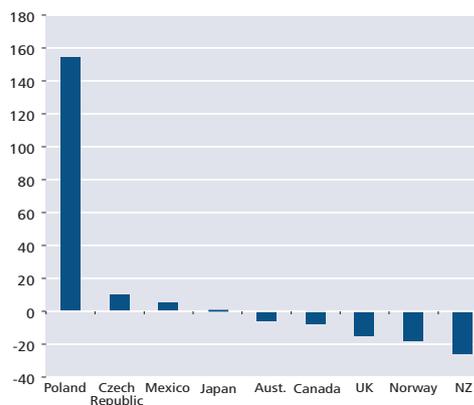
Source: OECD in Figures 2007

Other measurements tell similar stories. In 2006, New Zealand was 22nd of 29 on the share of the economy that comes from government purchase of goods and services—smaller than the UK, Canada, Australia, or Japan and only just ahead of the United States⁵.

Nor is the public service taking up a larger share of New Zealand's workforce. In fact, from 1995 to 2005, only 10 OECD countries saw the public service grow in relative size—most of them eastern European countries rebuilding after the Cold War, and recently industrialised countries like Mexico or South Korea.

In most of Europe, North America and Oceania, governments' relative size shrank from 1995 to 2005 as public sectors were cut and economies grew. The share of the workforce in New Zealand employed in the public service decreased faster than most OECD countries. Only Iceland saw a bigger drop⁶.

Change in the public service as per cent of the civilian workforce, 1995-2005



Source: OECD in Figures 2007

So if New Zealand's public sector isn't big by either historical or international standards, what is at stake if it is cut deeply?

⁵ Source: p. 36-37, *OECD in Figures 2007*

⁶ Source: *Ibid.*

Who's a "bureaucrat"?

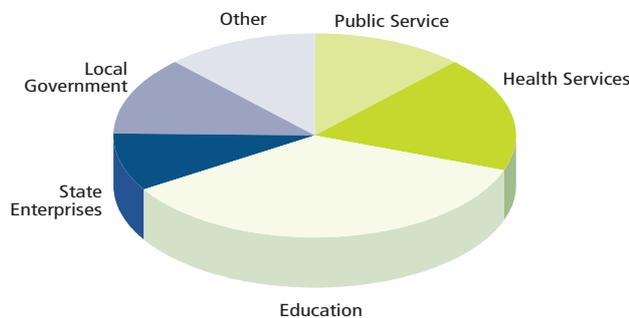
There are almost three times as many education workers, and almost 20,000 more health workers, than workers in the public service. But even if all the workers in the core public service were laid off, the Government would not save enough money to fund tax cuts of \$50 a week.

In July, following revelations of abuse, National Party MP Jo Goodhew called for more spot-checks and a comprehensive review of New Zealand's rest homes. A few weeks earlier, National MP Judith Collins called for an investigation of benefits schemes. National MP Chester Borrows called for faster withdrawals of driver licences for drink-drivers in January.

Unveiling National's welfare policy, Ms. Collins also called for more intervention in beneficiaries' lives, particularly solo mothers. At the same time, she decried growth in the Ministry of Social Development without noting it had absorbed four ministries. Overall, fewer people work doing the same jobs than in 2002.

Who do MPs want to do these investigations, interventions and audits, or process driver's licence suspensions? The same MPs can't say there are too many bureaucrats while at the same time, demanding more be done by them. Particularly, when the "bureaucrat" referred to in billboards makes up only 12% of the public workforce.

Public Sector by Jobs in New Zealand



Source: Statistics NZ quarterly earnings survey, 2007

If so-called front-line services won't be cut, and if assets like Kiwibank or KiwiRail won't be privatised, and if local government workers can't be directly fired by the central government, an awful lot of savings are expected from the 'bureaucrats'.

So, who are the so-called 'bureaucrats'?

Some, like the ones MPs would like to do more auditing, processing and investigating, don't deliver front-line services - just like not every bank worker is at the counter. Among these are people who provide IT support, payroll functions, audits, or communication functions like campaigns to get people to quit smoking or combat bio hazards like didymo.

Then there are the prison officers, probation officers, KiwiSaver call centre workers, airport emergency crews, park rangers, health and other scientists, passport officers, court workers, customs officers, meat inspectors, or people helping benefits recipients find work.

There are also people who we need to design schemes like Kiwisaver, run ACC, operate Statistics New Zealand, ensure consumer products are safe, or brief ministers on issues from climate change to Zimbabwe. Others ensure that government is open—from committees to hearing citizens' views on proposed laws, to keeping the Parliamentary website running.

In all, 42,000 people fit the definition of "bureaucrat". They can't all be expendable. But troublingly, the "bureaucracy" has been under concerted attack for more than a year. Cuts are implied, but who and where isn't specified. It is difficult to see how weaker public services won't result.

What is productive, or is public spending “dead money”?

In July 2008, the ANZ Bank released a report showing non-productive government spending was rising faster than productive. And MP Rodney Hide said public spending was “dead money”. Are these accurate enough to decide the fate of public services?

In July, the ANZ Bank released a report that the National Party said underlined what it had been saying all along: that non-productive government spending was rising faster than government spending. But without knowing how ANZ reached its conclusion, it's impossible to know if its report is objective or pushing a political agenda.

In the report, ANZ divided government spending into productive and unproductive categories. Included in productive spending were things like law and order, education and roading; in non-productive, things like culture and recreation, and “departmental outputs”. At first glance, that might make sense.

But among non-productive spending are things like Kivisaver, which more than 800,000 people have joined. The ANZ Bank itself offers Kivisaver products. Nonetheless, hiring 370 people in Hamilton to help get Kivisaver up and running was deemed unproductive.

So, too, was the Department of Conservation, despite 30% of the 2.2 million overseas visitors visiting a national park maintained by DoC staff. And despite studies that show on the West Coast alone, five national parks generated \$220 million in tourist activity and jobs for 1,800 people. In the North Island, the Whakapapa and Turoa ski fields are also in a DoC-maintained national park, generating more than \$45 million a year and 2,200 jobs.

More confusing is ANZ's decision to simply exclude health spending from its study, “as to be honest we were unsure where to classify it.”

Had health care spending—the largest single government expense, which grew significantly in the period ANZ studied—been defined as productive, ANZ couldn't have made the point it did. It is discomfiting that despite such shoddy research, the National Party endorsed its findings almost as soon as the report was released.

At the same time, ACT Leader Rodney Hide used new wage statistics that showed Wellington's salaries are the country's highest to decry “dead money” being spent in the public sector. In fact, government salaries are not Wellington's highest. The financial sector has higher salaries, followed by the electricity and building sector.

In an environment where charges of rampant unproductive spending are taken at face value no matter how illogical, and being in good health does not help productivity, it is too easy to be lulled into thinking that deep public service cuts won't have an effect. Or that the effect will be felt in Wellington alone.