David Rea[1]

Government Expenditure and Revenue in New Zealand: A Brief Overview

Introduction

Government expenditure and taxation have an impact on everyone in the population. Everyone, at some point in their lives, benefits from government-provided services and entitlements such as kindergartens, roads, hospitals or New Zealand Superannuation. Almost everyone bears at least some of the costs of providing these services and entitlements. Most goods or services purchased, and most income earned, attracts some form of taxation.

In the Budget each year the government sets out its plans for spending on services and entitlements. The Budget also details plans for raising the revenue necessary to pay for this expenditure. There is a lot of public interest in these plans, given the pervasive effects of government. However, despite the widespread publicity the budget receives, and despite the vast array of detailed and accessible information available, it is often difficult to gain an overview of the overall nature of government spending and taxation.

The purpose of this article is to try and stand back from the complexity of government and present a simple overview. The article is structured around five sets of questions:

- What does government expenditure actually fund, how does it finance this expenditure, and how much is left over at the end of the year?
- Who in the population benefits from government expenditure, and who in the population are the main taxpayers?
- How has the amount and nature of government expenditure and revenue changed over recent decades?
- How does government spending and taxation in New Zealand compare with other countries?
- How will government spending and revenue-raising evolve over the coming years?

In the next section I briefly canvass some measurement issues, before separately discussing each of the five sets of questions identified above.

Data and concepts

Otto von Bismarck – the German chancellor often referred to as the father of the welfare state – is alleged to have said that 'laws are like sausages, and it is better not to see them being made'.[2] A similar ironic remark is often made about statistics. Understanding the messy process by which statistics are collected and assembled makes people less likely to swallow the arguments they are used to support. Unfortunately, even

David Rea is a Visiting Research Fellow at the Institute of Policy Studies.

the most preliminary inquiry into the nature of statistics on the size and nature of government reveals some difficulties. The statistics that are available are troubled by different definitions across time and between countries. In many areas the statistics do not exist.

In measuring the nature and role of the state, it is important be clear about what exactly is being measured. The widest version of government includes local as well as central government. A narrower version focuses on just central government, but here there are also some choices. In relation to central government, it is usual to distinguish between:

- '*core Crown*', which consists of government departments, offices of Parliament and some other entities, including the Reserve Bank; and
- '*total Crown*', which includes the core Crown agencies as well as state-owned enterprises, Crown entities (eg ACC, Housing Corporation of New Zealand, district health boards and boards of trustees), and a variety of other organisations.

Because the data is not comprehensive, this article reports statistics on all of these conceptions of government in different places.

The source of statistics on Crown expenditure and taxation is the financial systems of individual government agencies. The information is consolidated by Treasury, and published as the Financial Statements of the Government as required by the Public Finance Act of 1989.

The way that the Crown accounts are constructed means that transactions are distinguished by the extent to which they change the government's net worth. In the expenditure area this means a distinction between expenses and capital. The distinction is important as in most places in this article statistics on only expenses are reported.

Unfortunately, the conventions and definitions upon which the accounts are constructed have changed over time. A key change occurred with the move from cash- to accrual-based accounting in 1994. There have also been changes in the treatment of GST and the dates of the financial year, and accounting standards and definitions have also evolved over time (Treasury, 2009a).

If we look at the statistics produced by other countries, there are considerable institutional and definitional differences in how each government reports its expenditure and taxation. What is sometimes labelled as the same thing often turns out to be quite different.

Crown accounts information is aggregated to produce measures of government activity using different methodologies. This means in practice that there are a number of statistical series available. These include the original government accounts in various forms, Government Finance Statistics (IMF, 2001) and various collections maintained by the OECD. This article uses the published versions of the government accounts; and for the historical information the long-term fiscal series which is derived from these accounts (Treasury, 2009a, 2009b; Statistics New Zealand, 2008a). Statistics from OECD.Stat are used for international comparisons.

An important issue for this article is the 'metric' by which central government expenditure and revenue is measured, particularly in regard to historical trends, but also cross-country comparisons. There are a number of choices available:

- real dollars that adjust for inflation (and sometimes purchasing power across countries);
- per capita real dollars that adjust for population change;
- spending or revenue as a proportion of GDP to adjust for the fact that the size of the economy changes; or
- spending or revenue as a proportion of GDP per capita to reflect both population and output changes.

It is also possible to measure changes in the size and role of government over time using the national accounts framework (Statistics New Zealand, 2008b). In this instance government's consumption and capital expenditure can be measured as a proportion of GDP.

Quite different conclusions can be drawn depending on the metric used. Over the last 30 years the population has increased by around 1% per year, and real growth in the size of the economy has averaged around 2.4% per year. This means that it might be possible to say that a particular aspect of government expenditure has increased in real dollar terms, but when measured on a per capita basis, or as a proportion of GDP, it may have declined. The exact choice of metric partly depends on the nature and context of what is being measured. This article uses the convention of expenditure, revenue or the fiscal balance as a proportion of nominal GDP.

The Crown accounts for the financial year to 30 June 2009

Budget 2009 forecasts that, for the year to 30 June 2009, *total Crown* expenses will be $82 billion. This represents around 46% of the value of GDP. *Core Crown* expenses will be just over $62 billion, which is around 35% of the value of GDP.

So what does this expenditure purchase? Table 1 below shows total Crown expenditure broken down into different functional areas. The table shows expenditure in billions of dollars. This expenditure is also shown as a proportion of total Crown spending, and as a proportion of GDP.

Roughly two-thirds of total Crown expenditure consists of what are usually termed social policy expenditures. These consist of the provision of public health and education, superannuation and income support payments, and the criminal justice system (Norman and Gill, forthcoming). Table 2 provides some rough estimates of some of these major items of social expenditure.

While approximately two-thirds of expenditure is social policy-related, the remainder is for activities such as roads, economic development, science, defence, the expenses of Crown entities, and of course Parliament itself.

As well as expenses, the government also has a capital spending programme, which in recent years has been slightly more than $7 billion per annum. This capital spending has

Table 1: Total Crown expenses by functional area, financial year 2008/09

	$ billion	Percentage of total spending	Percentage of GDP
Social security and welfare	23.4	28.6	13.1
Government superannuation fund (GSF)	0.7	0.8	0.4
Health	11.9	14.6	6.7
Education	11.8	14.5	6.6
Core government services	3.8	4.7	2.1
Law and order	3.4	4.1	1.9
Defence	1.7	2.1	0.9
Transport and communications	9.3	11.4	5.2
Economic and industrial services	8.1	9.8	4.5
Primary services	1.4	1.8	0.8
Heritage, culture and recreation	2.4	2.9	1.4
Housing and community development	0.9	1.1	0.5
Other	0.1	0.1	0.1
Finance costs	3.4	4.1	1.9
Top-down expense adjustment	-0.5	-0.6	-0.3
Total Crown expenses	$81.9	100%	45.8%

Source: Budget Economic and Fiscal Update, 2009

Table 2: Approximate estimates of major social policy expenditures, financial year 2008/09

	Percentage of total Crown spending	Percentage of GDP
District health boards	12.3	5.6
Early childhood education and childcare	1.5	0.7
Primary and secondary education	6.1	2.8
Tertiary funding	4.8	2.2
New Zealand Superannuation, Veterans Pension and Kiwisaver	11.6	5.3
Benefits and supplementary payments	7.9	3.6
Tax credits	3.5	1.6
Police	1.6	0.7
Corrections	1.0	0.5
Housing and income related rents	0.4	0.2
Accident Compensation	3.3	1.5

Source: Budget Economic and Fiscal Update, 2009. Note: these are the author's approximate calculations.

Table 3: Total Crown revenue, financial year 2008/09

Category	Description	$ billion	Percentage of total revenue	Percentage of GDP
Direct taxation	Direct individual	26.4	33.4	14.8
	Direct corporate	7.9	10.0	4.4
	Direct other	2.8	3.6	1.6
Indirect taxation	Indirect GST	11.6	14.7	6.5
	Indirect other	4.8	6.1	2.7
Other sovereign revenue	ACC and other levies	4.1	5.2	2.3
Sale of goods and services		15.2	19.3	8.5
Interest revenues and dividends		3.0	3.8	1.7
Other revenue		3.1	3.9	1.7
Total crown revenue		$79.0	100%	44.2%

Source: Budget Economic and Fiscal Update, 2009

included the government's contribution to the New Zealand Superannuation Fund, which for the financial year to the end of June 2009 is forecast to be $2.2 billion.

So how does the government raise revenue to fund current expenses? Table 3 outlines the sources of revenue for government in the financial year to June 2009. As can be seen, approximately three-quarters of government revenue is from various forms of taxation and levies. The remainder is from interest, the sale of goods and services by businesses owned by the Crown, and other sources.

The government accounts moved into deficit in the financial year to June 2009. There are a number of different ways that this is monitored, but a key measure is the OBEGAL. The acronym refers to the 'operating balance before gains and losses'. It is a measure of the difference between operating expenses and revenue – and therefore excludes changes in the value of the Crown's assets and liabilities. For the financial year to June 2009 the total Crown OBEGAL is forecast to be almost $3 billion. This represents around 3.4% of total Crown expenditure, or 1.6% of GDP. In the year to June 2010 this rises to almost $8 billion or 4.4% of GDP. The OBEGAL is argued to be a good indication of the 'stewardship' of the government accounts, and is an important driver of the new fiscal strategy target of net core Crown debt.[3] This is because higher levels of deficits in the OBEGAL require the Crown to borrow.

The impact of spending and taxation across the population

Government spending and taxation represents a considerable fraction of total economic output. However, the impacts are not distributed equally across the population. Who benefits from and who pays the costs of government spending and taxation is an important issue. Unfortunately, measurement of the distributional impact of government spending and

taxation has only occurred sporadically. The most recent study analysed the distributive impact of government in 1987/88 and 1997/98 (Crawford, 2003; Crawford and Johnson, 2004). The analysis set out below draws on this study.

One way of looking at the distributional impact of government is to analyse spending and taxation across high- and low-income households. The overall results of the Crawford study showed that government redistributed from high- to low-income households. However, on average, even the highest income households gained some benefits, and the poorest households also paid tax.

Government redistributed between high- and low-income households partly through spending. Poorer households received a progressively larger share of government spending. Looking at the impact of expenditure in different areas, cash benefits were strongly redistributional across the income distribution, while health and education spending were less so.

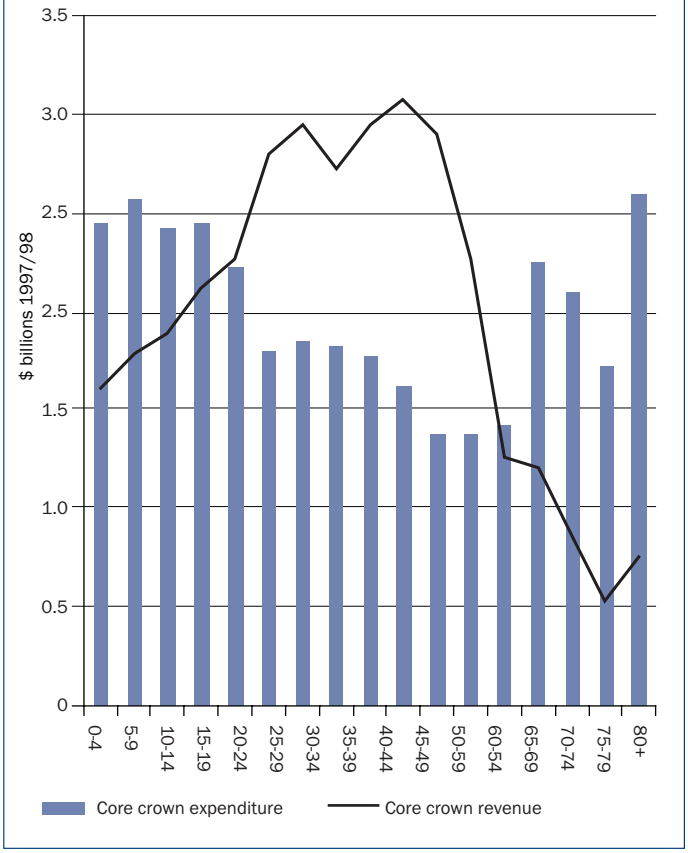
Redistribution also occurred through the taxation system, and possibly to a greater extent than via government expenditure. On average, households with higher incomes paid a larger proportion of their income as tax, and hence provided a larger share of taxation. For example, in 1997/98 the highest decile paid almost 30% of all tax, whereas the poorest 10% paid roughly 3%. Income tax was more redistributive than consumption tax, as would be expected.

Another way of looking at the distributive impact of government is across the life cycle. This analysis shows that in 1997/98 government spent disproportionately on the young and the old, whereas income tax was paid by those in the middle. In other words, there was redistribution across the life cycle.

Figure 1 draws on unpublished data from the Crawford study, and looks at the distribution of overall spending and taxation by age. Figure 1 is based on per capita spending or taxation paid by an individual's household. Hence even an individual aged between 0 and 4 is counted as receiving the benefits of government expenditure, and paying some tax!

As would be expected, education spending is strongly biased towards children and young people, whereas health spending, and of course New Zealand Superannuation, are received disproportionately by older people. Figure 1 also shows how the greatest share of taxation is paid by the middle aged.

Figure 1: Core Crown expenditure and revenue allocated to individuals by age, 1997/98



Source: Unpublished data from the Crawford Fiscal Incidence Study. The figures represent estimated total dollars received by the age group. All government expenditure and taxation is allocated in this instance, either on a strictly per capita basis, or according to weights derived from administrative data.

The Crown accounts over time

It is useful to look at how the government's spending, revenue and operating balance have changed over time. Unfortunately, we do not have statistics relating to the long-term historical trend in total Crown expenses. We do, however, have measures that roughly correspond to the current concept of core Crown. Figure 2 shows what might approximate core Crown expenditure as a proportion of GDP since 1900. A key feature of the overall trend is that as a proportion of GDP, the size of core government is now bigger than it was in the early 1900s, although not as big as at the height of the recession in 1992. In many instances total spending as a proportion of GDP has moved with the economic cycle.

Figure 2 also shows the more recent trend in total Crown expenditure since the mid-1990s.

So where have these changes come from? The long-term growth in core government expenditure from the 1900s to the 1990s reflects government undertaking an increasing range of social but also economic functions. These new functions included an expanded range of welfare payments, but also expenses related to economic activity such as the costs of running businesses and subsidies. From the late 1980s and early 1990s expenditure on some of these economic and social activities reduced.

Figure 3 shows how different categories of core government expenditure have changed since 1972. It shows that spending on 'economic activities' has substantially reduced since the mid-1980s. This has involved less expenditure in the areas classified as 'primary services', 'transport and communications' and 'economic and industrial services'. There has also been a decline in defence expenditure of around 1% of GDP.

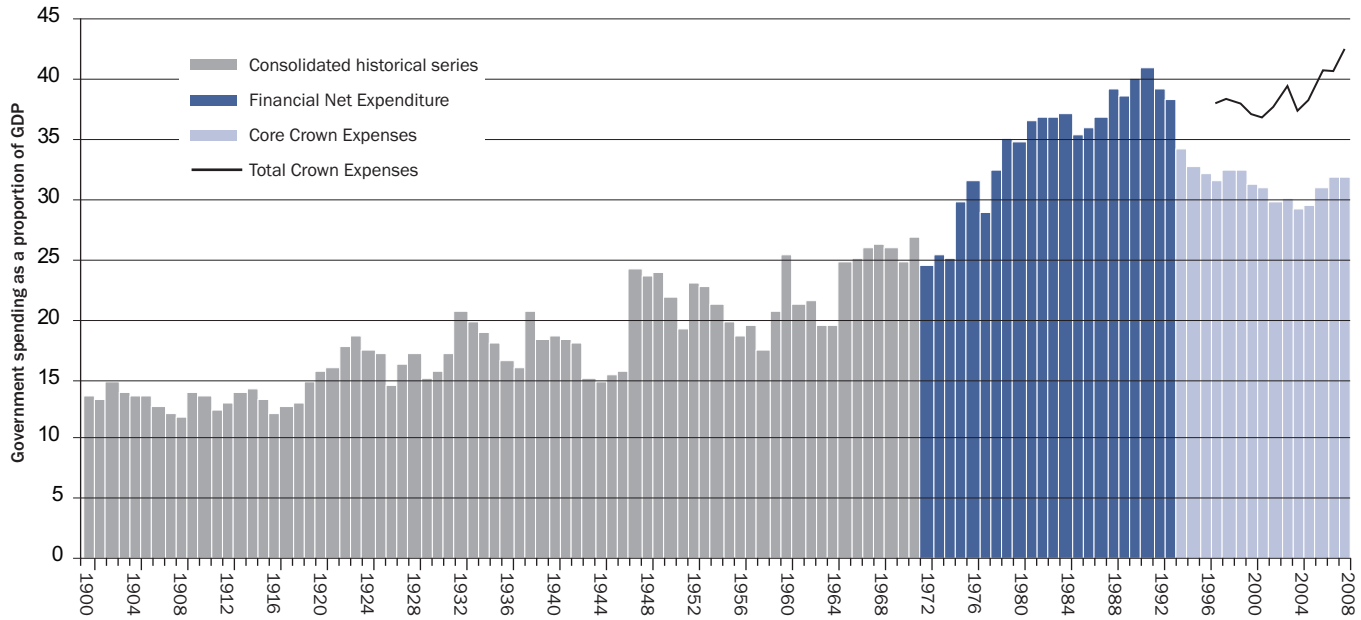
In the social policy area there have also been important changes. Core government spending on social security and welfare increased until the early 1990s, and then decreased.

These changes reflect expenditure on superannuation and benefits, which are influenced by both the numbers of recipients and the average level of payments (Treasury, 2006; Morrison, 2000). Although lower than in the early 1990s, current spending on social security and welfare is higher than in the early 1970s.

Spending on health, education and law and order have also gradually increased over the whole period since 1972. As a proportion of GDP, it is likely that government spending on health increased by around 1.5%, on law and order by around 1%, and on education by around 0.5% of GDP.

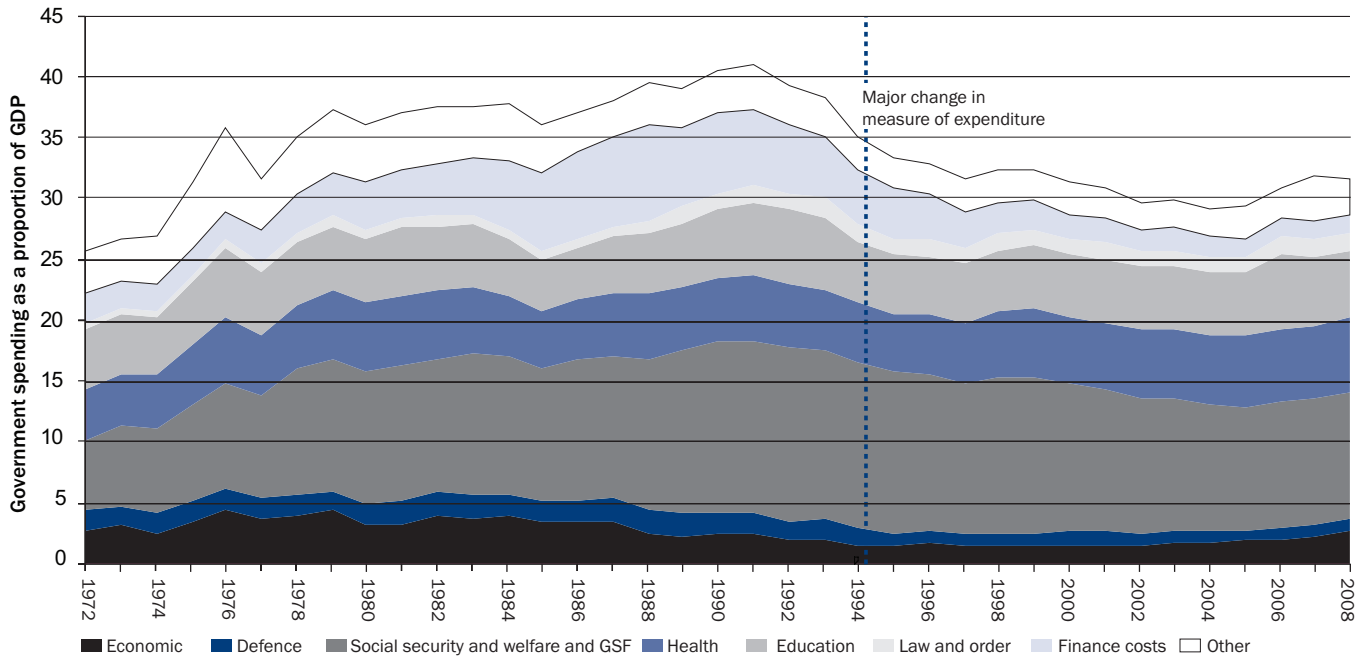
Figure 3 also shows important changes in the costs of

Figure 2 – Government expenditure as a proportion of GDP, 1900 to 2008



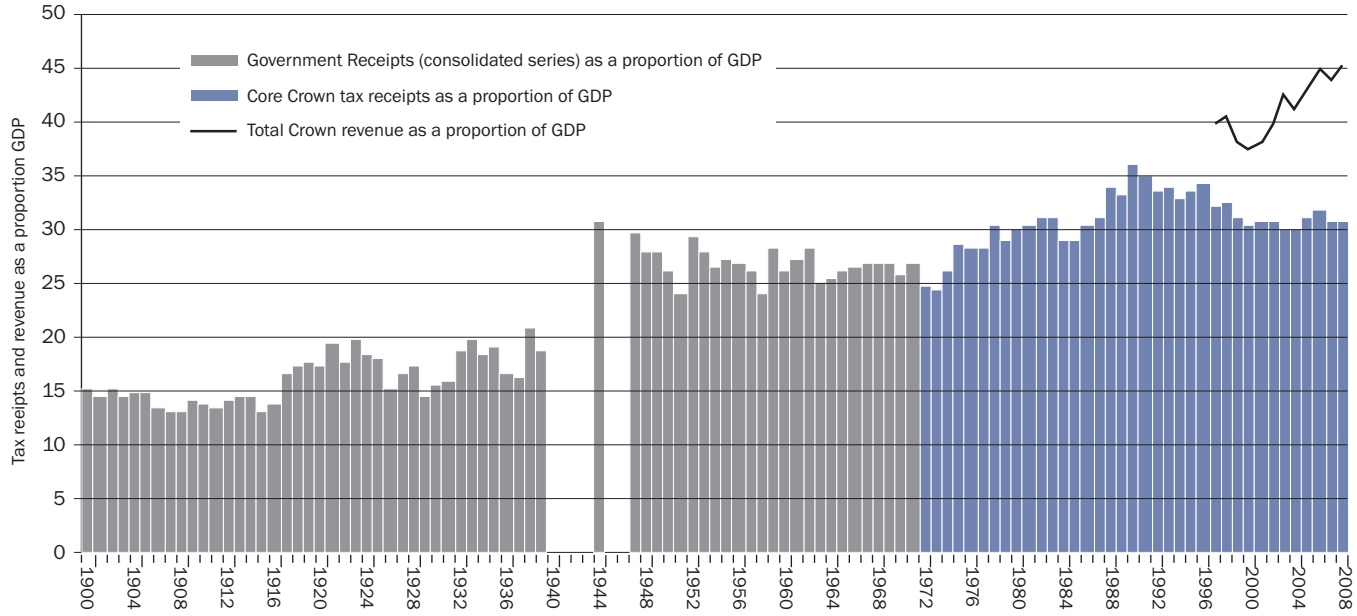
Source: Long-term fiscal series (Treasury, 2009a, 2009b) and Statistics New Zealand (2008a). Note: data from 1994 is relatively consistent, whereas earlier data is constructed from various series. Data pre-1972 comes with the caveat 'data is constructed from various series and is not strictly comparable'. Government expenditure as a proportion of GDP between 1939 and 1945 may not be accurate.

Figure 3 – Components of core government expenditure as a proportion of GDP, 1972 to 2008



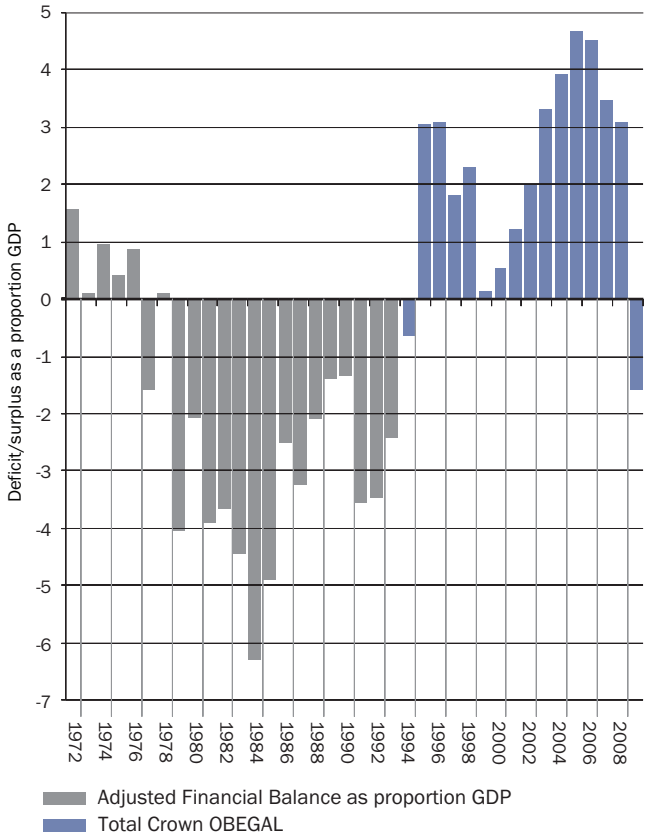
Source: Long-term fiscal series (Treasury, 2009a, 2009b). Note: the economic category aggregates 'Transport and Communications' and 'Economic and Industrial Services' from the original series. The other category aggregates 'Core Government Services' and 'Heritage, culture, recreation, primary services, housing, community development and other'. As well as the major change in the move from cash to accrual accounting, there have been a range of other definitional changes. For more information see Treasury (2009b).

Figure 4 – Measures of government tax and revenue as a proportion of GDP, 1900 to 2008



Source: Long-term data series (Statistics New Zealand, 2008b) and the long-term fiscal series (Treasury, 2009a, 2009b). Note: the bars are measures of tax receipts (based on cash accounting methodology) for what approximates the entity we now refer to as core Crown. The line is total revenue (accrual-based) for the wider entity referred to as total Crown. For more information see Treasury (2008a).

Figure 5: Surplus and deficit as a proportion of GDP, 1972 to 2008



Source: Long-term fiscal series (Treasury, 2009b) and Budget Economic and Fiscal Update (2009). Note: the Financial Balance (1972–1990) and Adjusted Financial Balance (1991–1993) was the difference between receipts and expenditure (current plus capital expenditure), excluding net lending transactions. It measured the need to raise finance (Treasury, 2008a).

financing government debt. From the early 1970s to the early 1990s expenditure on financing increased as government accumulated an increasing level of debt. The level of this expenditure subsequently declined as the level of government debt reduced.

Over the last 100 years government revenue as a proportion of GDP has increased in a roughly but not exactly similar manner to expenditure. The vast majority of revenue is tax, and Figure 4 shows government tax as a proportion of GDP since 1900.

The manner in which government has collected taxation revenue has also evolved overtime. Since the mid 1980s there has been a progressive widening of the tax base, a simplification of tax structures, and a lowering of rates. The structure of income tax rates has become less progressive, but at the same time it has become more comprehensive and less easy for high income earners to avoid. GST has replaced a myriad of excise taxes, and the structure of company taxation has been improved with full dividend imputation (McCaw, 1982; Mcleod, 2001).

While government has raised an increasing share of GDP as revenue, the extent to which it has done this has not always been at the same pace as government expenditure. Figure 5 sets out the difference between government expenditure and revenue since 1972. As can be seen, after a decade and a half of deficits, revenue surpassed expenditure in 1995 and the accounts moved into surplus.

Government expenditure and taxation compared to other countries

So how does New Zealand compare to other OECD countries? Figure 6 shows overall government expenditure as

a proportion of GDP. In 2007 New Zealand looked relatively typical, with government expenditure equivalent to just over 40% of GDP.

Also, if government expenditure is analysed over time New Zealand is also a relatively typical case. Over the last 100 years there has been a growth in the size of government in many of the original OECD countries (Tanzi and Schuknecht, 2000). In these countries government expenditure as a proportion of GDP was around 10% in the 1900s, and grew steadily over the next 80 or so years. In the late 1980s and early 1990s many OECD countries embarked on a programme of fiscal consolidation that saw government expenditure decline as a proportion of GDP. As can be seen from Figure 6, the fiscal consolidation since 1990 seems to have been relatively larger in New Zealand than in other countries.

There are some interesting differences between New Zealand and other OECD countries if we look at the composition of government spending. Figure 7 shows New Zealand compared to the OECD average in 2005.

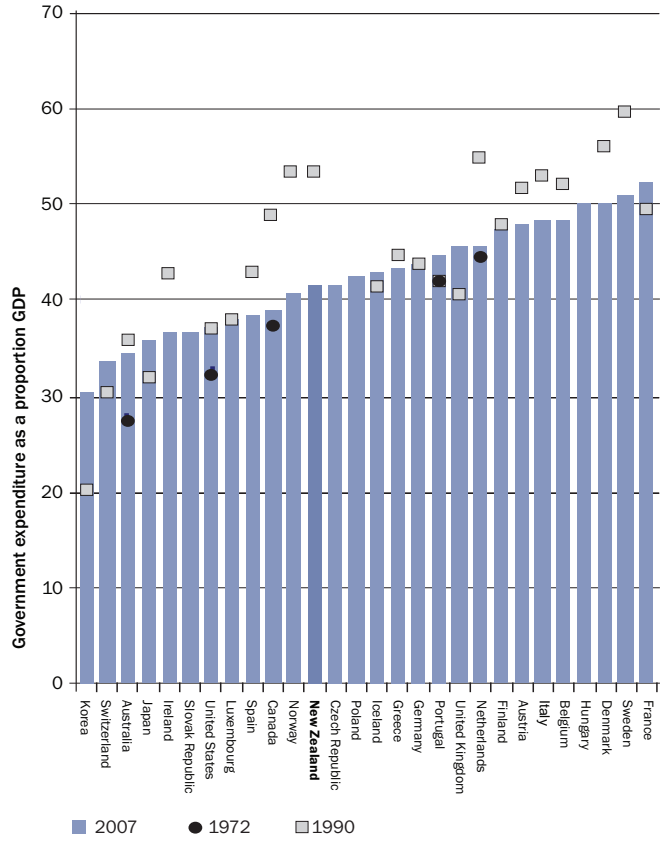
While New Zealand is slightly below average overall, the largest difference is in the area of pensions and benefits, or what the OECD defines as 'social protection'. The main explanation for this difference is the overall costs of New Zealand Superannuation compared to the costs of pensions in other countries. Part of the reason for this is demographics – the proportion of the population who are older is slightly lower in New Zealand than in many other OECD countries. Part of the reason is also the nature of the New Zealand system. New Zealand Superannuation is a universal pension paid at a modest flat rate. Public spending on pensions in other countries is often higher because the rate of pension is often determined by the prior earnings of the recipient (OECD, 2008). In the area of benefit expenditure, it appears that New Zealand spending is roughly the same as the OECD average. The OECD social expenditure database shows above average spending on incapacity and family-related benefits, and lower levels of spending on unemployment compensation.

New Zealand spends roughly the same on health, and slightly more on education, environment protection, and public order and safety. In the education area, New Zealand appears to have a higher rate of expenditure on all sectors of education. This is partially explained by demographics, as New Zealand has a younger population than many OECD countries. New Zealand's higher spending on 'public order and safety' is probably related to New Zealand's relatively high rate of imprisonment.

In other areas – defence, general public services and economic affairs – New Zealand spends less than the OECD average.

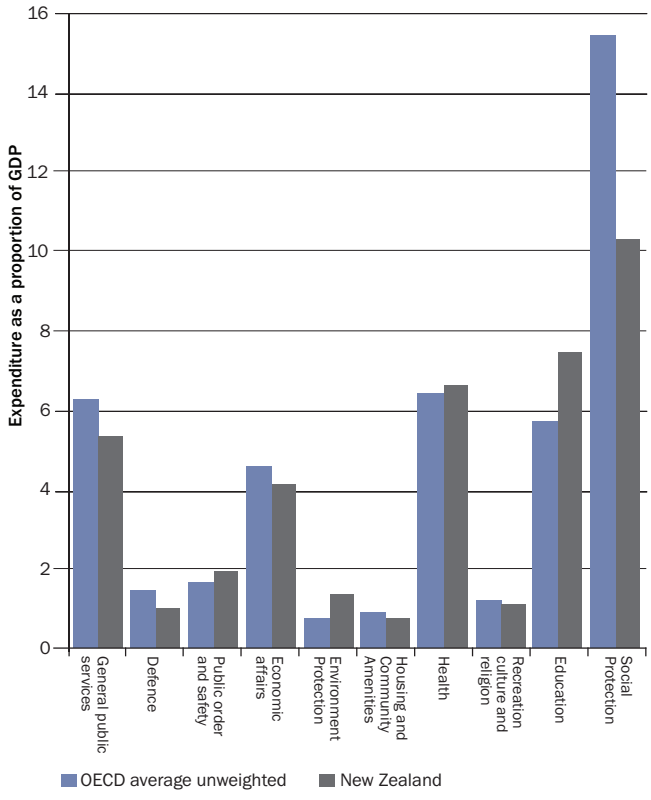
On the revenue side New Zealand also appears relatively

Figure 6: Government expenditure as a proportion of GDP across OECD countries



Source: OECD.Stat. Note: this is a measure of both central and local government, and is based on the national accounts framework. The OECD does not report a figure for New Zealand in 1972.

Figure 7: Components of government expenditure as a proportion of GDP, New Zealand compared to OECD average in 2005



Source: OECD.Stat. Note: the comparison is with 26 OECD countries.

typical. As is shown in Figure 8, government of all forms in New Zealand is recorded as collecting tax revenue that is equivalent to around 37% of GDP. If we compare New Zealand to other countries, it is apparent that there are a range of countries that collect significantly less tax than New Zealand, but there are also many countries that collect significantly more.

In looking at the composition of taxation in New Zealand compared to other countries, there are some interesting similarities as well as differences. Figure 9 shows that the mix of direct and indirect taxes in New Zealand is broadly comparable with that in other countries.

On the direct tax side, New Zealand collects about 63% of all tax in direct forms, which is about average for OECD countries. However, there are important differences in the composition of direct taxes in New Zealand compared to other countries. New Zealand (along with Australia) has a high reliance on personal and corporate tax. This is partly because the two countries do not raise revenue from what the OECD defines as social security taxes.[4] In other countries the legal incidence of social security taxes falls disproportionately on employers (OECD, 2007).

New Zealand collects around 37% of tax revenue through indirect taxes. In this area New Zealand relies heavily on GST, whereas many other countries tend to use less efficient multiple rate systems.

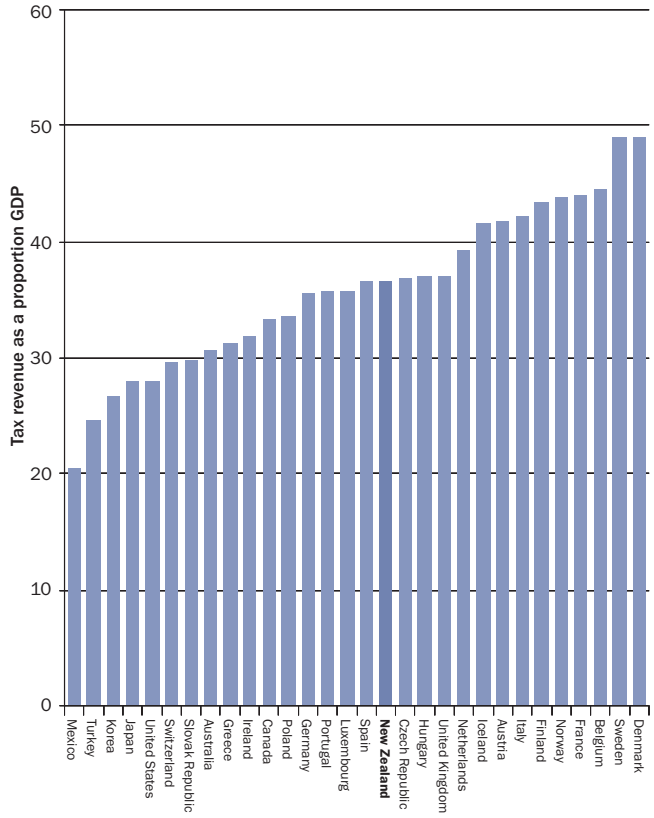
If we turn to the overall balance between revenue and expenditure across OECD countries, New Zealand has in recent years been an above-average performer with a surplus. With the international financial crisis and recession, every OECD country except Norway is projecting deficits in the coming years. Figure 10 shows the OECD's most recent estimates of these deficits for 2010. As can be seen, many countries are predicting larger deficits as a proportion of overall economic output. An important context is that the New Zealand government is also relatively less indebted than governments in many other OECD countries.

The future fiscal path

The current economic environment presents significant challenges for governments around the world. As in many countries, the New Zealand government faces not only rising expenditure and reduced revenue because of the recession, but also future fiscal pressures because of population ageing and climate change.

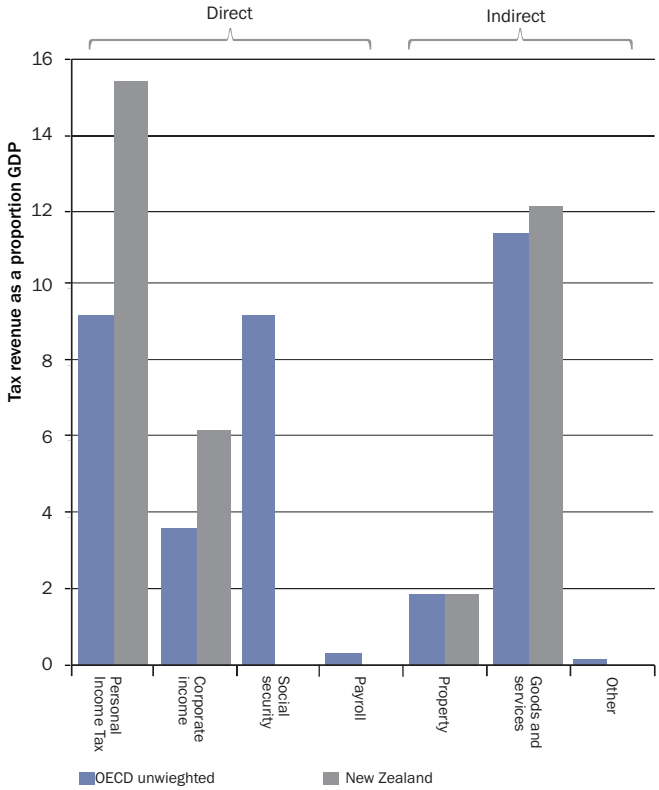
Across the OECD most governments have put in place fiscal stimulus packages that provide short-term support for their economy. As a result of deficits, in virtually every OECD country government debt is increasing. Many countries have also developed medium-term fiscal consolidation strategies that aim to reduce this debt once their economies start growing again. These fiscal consolidation strategies have

Figure 8: Government taxation revenue as a proportion of GDP in OECD countries, 2006



Source: OECD.Stat. Note: the comparison is with 30 OECD countries for which there is data available.

Figure 9: Composition of government taxation revenue as a proportion of GDP, New Zealand compared to OECD average, 2005



Source: OECD (2007). Note: the comparison is with 30 OECD countries, and relates to all levels of government.

differing mixtures of increases in taxation and constraints on expenditure growth (OECD, 2009).

The New Zealand government's fiscal plans are set out in the Fiscal Strategy Report of Budget 2009. The long-term strategy is anchored around prudently managing the level of net core Crown debt over the coming years. This means:

> over the short to medium term it is prudent to allow an increase in debt to deal with the current economic and fiscal shock. However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks. We will do this by ensuring that net debt remains consistently below 40% of GDP, and is brought back to around 30% of GDP no later than the early 2020s. Over the longer term, we consider that it is prudent to have net debt closer to 20% of GDP and we will work towards this as conditions permit. (Government of New Zealand, 2009, p.41)

Figure 11 shows the government's forecast of net core Crown debt from the financial year ending 2009 to the year ending 2019. This profile of future net core Crown debt is a product of demographic and economic forecasts, as well as the government's expenditure and revenue plans.

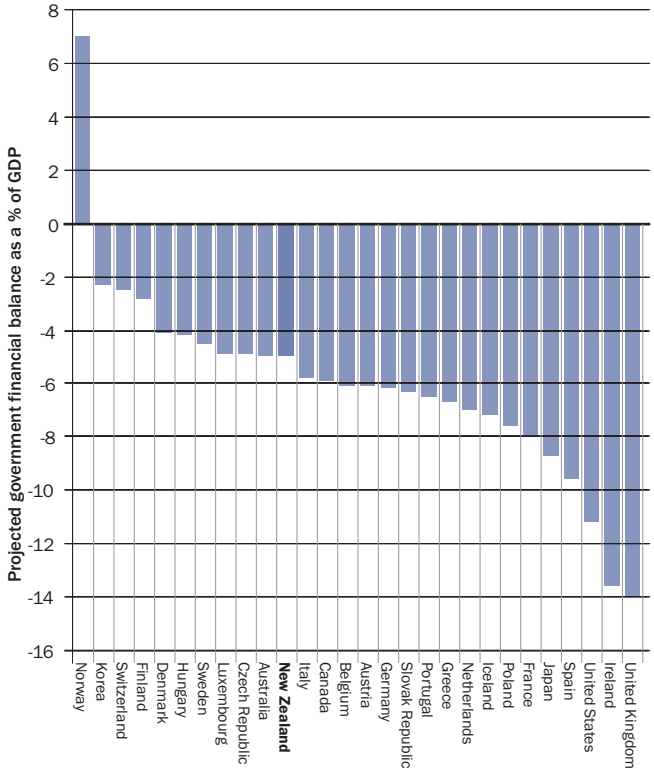
The government's future plans for expenditure are for expenses as a proportion of GDP to rise until the financial year ending 2011, and then fall by around 0.5% of GDP per year until 2019. Note that this is expenses only, and does not include the government's capital expenditure programme.[5]

Table 4 shows budget forecasts of how expenses in different functional areas, as well as unallocated new spending, are likely to evolve over the next four years. It shows actual nominal expenditure, the percentage change in nominal expenditure, and the change in spending as a proportion of GDP in each area. Between 2008/09 and 2012/13, total Crown government expenditure is forecast to increase from almost $82 billion to just under $98 billion. This means that government expenses will account for just over 3% more of GDP over this time period.

In terms of government revenue, the government is currently indicating a plan to keep revenue as a proportion of GDP broadly constant over the next decade. It has, however, indicated a desire to consider the composition of this revenue, particularly in the tax area with the deferral of the government's tax reduction package. A tax working group has been asked to identify issues about the medium-term direction of the tax system, particularly in the light of the government's goal of aligning the company, trust and top personal tax rates at 30%.

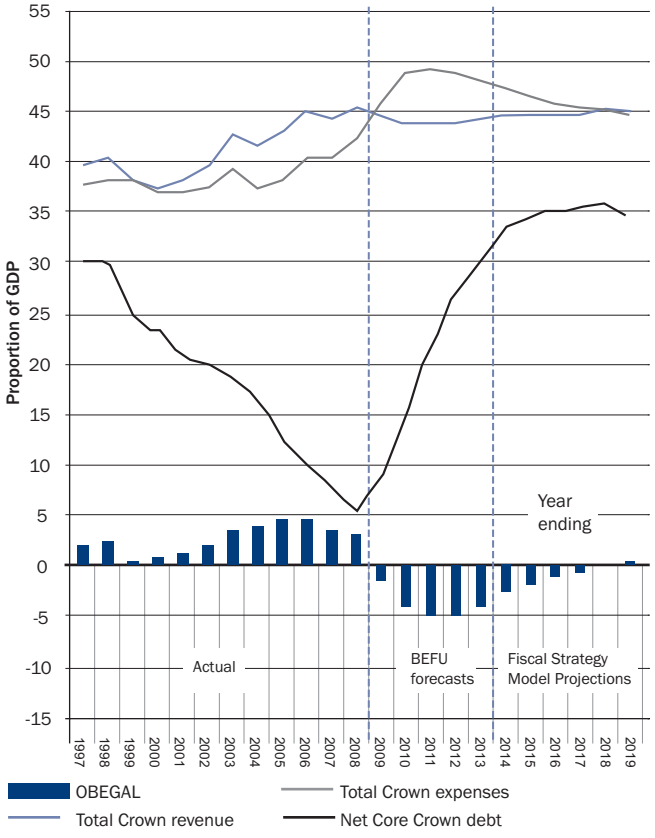
Notwithstanding any possible changes that might flow from these considerations, Table 5 shows the Budget 2009 forecasts of revenue for 2008/09 compared with 2012/2013. As can be seen, revenue as a proportion of GDP grows

Figure 10: Forecast general government financial balance as a proportion of GDP, OECD countries 2010



Source: OECD (2009), Table 4.4, p. 252

Figure 11: Key fiscal aggregates as a proportion of GDP, 1997 to 2019



Source: Long-term fiscal series (Treasury, 2009b), Budget Economic and Fiscal Update (2009) and Fiscal Strategy Model (2009)

Table 4: Total Crown expenses, 2008/09 and 2012/2013

	2009 $ billion	2013 $ billion	Percentage change nominal spending %	Percentage change in spending as a proportion of GDP%
Social security and welfare	23.4	28.6	22.2	1.26
GSF	0.7	0.5	-27.4	-0.13
Health	11.9	12.7	6.2	-0.31
Education	11.8	12.3	3.8	-0.46
Core government services	3.8	3.7	-2.1	-0.26
Law and order	3.4	3.6	6.8	-0.08
Defence	1.7	1.7	3.4	-0.07
Transport and communications	9.3	9.5	1.5	-0.47
Economic and industrial services	8.1	9.0	11.3	-0.00
Primary services	1.4	1.5	2.5	-0.06
Heritage, culture and recreation	2.4	4.1	68.2	0.69
Housing and community development	0.9	1.2	31.0	0.09
Other	0.1	0.3	136.7	0.08
Finance costs	3.4	5.5	62.6	0.86
Forecast for future new spending	-	3.6	na	1.82
Top-down expense adjustment	-0.5	-0.2	-70.0	0.20
Total Crown expenses	$81.9	$97.5	19.1%	3.15%

Source: Budget Economic and Fiscal Update, 2009. Note: comparisons of expenditure in different functional areas should also take into account the amount forecast for future new spending.

marginally over this period. However, taxation revenue as a whole declines, and there is a shift in composition, which partly reflects tax changes that have occurred in individual taxation areas during the 2008/09 financial year.

Table 5: Total Crown revenue, 2008/09 and 2012/2013

		2009 $ billion	2013 $ billion	Percentage change in revenue as a proportion of GDP
Direct taxation	Direct individual	26.4	27.4	-1.0
	Direct corporate	7.9	10.6	0.9
	Direct other	2.8	2.2	-0.5
Indirect taxation	Indirect GST	11.6	12.3	-0.3
	Indirect other	4.8	5.2	-0.1
Other sovereign revenue	ACC and other levies	4.1	6.3	0.9
Sale of goods and services		15.2	18.4	0.7
Interest revenues and dividends		3.0	3.4	0.0
Other revenue		3.1	3.2	-0.1
Total Crown revenue (excluding gains)		$79.0	$89.1	0.6%

Source: Budget Economic and Fiscal Update, 2009

1 I am grateful for comments on an earlier draft of this article from Sandra Watson, Dennis Rose, Rodney Dormer, Derek Gill, Paul Callister, Murray Shadbolt, Peter Bushnell, Nicola Haslam, Marny Dickson and Paul Gini.

2 Although this saying is widely attributed to Bismarck, he is unlikely to be the originator of it (Shapiro, 2006).

3 Net core Crown debt is calculated by deducting the financial assets held by core Crown agencies from gross sovereign-issued debt. There are a number of assets excluded from this measure, including the assets of the NZS Fund, student loans and loans to DHBs.

4 ACC levies are not defined by the OECD as social security taxes.

5 In Budget 2009 and the following four budgets the government is forecasting to spend $7.5 billion on new capital initiatives.

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