Fiscal rules:

Fiscal framework and rules to deliver Health for All

Dr Ganesh Ahirao
September 2025

Report for the Association of Salaried Medical Specialists

ASMS
TOI MATA HAUORA

About the author

Dr Ganesh Ahirao

Dr Ganesh Ahirao (aka Ganesh Nana) is New Zealand-born of Indian ethnicity, raised in Te Awa Kairangi ki Uta. Ganesh acknowledges Māori as Tangata Whenua of Aotearoa. His professional career over the past 45 years has ranged from academia, to consulting, to public service.

His most recent employed position was as Chair of the Productivity Commission Te Kōmihana Whai Hua o Aotearoa.

Before the Commission, Ganesh held various positions at private sector consultancy Business and Economic Research Limited (BERL), having first joined BERL in 1998 as a Senior Economist. His work focussed on the Māori economy, regional New Zealand and its economic development, and/or workforce training efforts and he led BERL to be a proud Accredited Living Wage Employer.

In 2019 he was a member of the Welfare Expert Advisory Group that reported to Government on reforms required to improve New Zealand's social security system.

Before BERL, Ganesh held various research and teaching positions at Victoria University of Wellington, while also studying for his PhD in economics, which was awarded in 2000.

During earlier times, Ganesh had a short stint in England as a researcher in the House of Commons working with the OECD and UK Treasury macroeconomic models. While in England he also worked for private sector forecaster Oxford Economic Forecasting Limited.

Since the disestablishment of the Productivity Commission in early-2024, Ganesh continues to monitor the economic situation publishing comment on his Substack site. In addition, Ganesh regularly volunteers for shifts at the Wellington City Mission's Whakamaru Social Supermarket and serves in voluntary positions on the Boards of Kaibosh Food Rescue, The New Zealand Drug Foundation Te Puna Whakaiti Pāmamae Kai Whakapiri, Nuku Ora, and ActionStation.

Acknowledgements

This paper was commissioned by the Association of Salaried Medical Specialists Toi Mata Hauora (ASMS). The development of this paper benefited from discussions with ASMS staff and advisors. The author thanks the ASMS, staff, and advisors for their assistance. The author takes full responsibility for the content, analysis, and conclusions in this paper.

Dr Ganesh Rajaram Ahirao (aka Ganesh Nana)
Hōngongoi (July) 2025

Suggested citation

Ahirao, G. Fiscal framework and rules to deliver health for all. Wellington. ASMS, 2025.

Contents

1 Foreword

In New Zealand, the fear of being a nation in debt looms large, as do calls to spare future generations from having to repay it.

Governments led by both major parties have placed strong emphasis on fiscal responsibility, which has been recognised with strong credit ratings from international ratings agencies. This matters – because credit ratings impact interest rates on government debt.

However, what looks like fiscal responsibility from one angle, appears as fiscal recklessness from another. Successive governments have scrimped on public services and deferred maintenance on critical infrastructure, while adopting conservative debt targets and avoiding discussions on tax reform.

The result? New Zealand has an infrastructure deficit estimated at over $200 billion. This deficit has hit the health system hard – with crumbling hospitals, inadequate facilities for safe patient care, ageing equipment, and failing data and digital systems. It is a catastrophic failure of political short termism. We have saddled future generations with outdated facilities and equipment in urgent need of repair and replacement.

New Zealand has also failed to invest in long term health workforce planning to ensure the country has enough doctors, dentists and other health workers to provide the care the population needs. New Zealanders of all ages are finding it harder to access health care.

Media commentary often gives an air of inevitability – we're a country who can't afford it. Doctors, dentists, and other health workers have been covering the affordability gap as best they can – with excess working hours, large leave balances, and working short staffed now the norm. However, the point has come where the goodwill of workers can't cover the gaping holes in the system.

Politicians offer various refrains of "we can't afford it" while tinkering around the edges with cost containment – hiring freezes in health; delayed recruitment; delayed hospital builds; deferred maintenance; suppressed wage growth, and political spin to paper over the cracks. These actions are damaging the health system that all New Zealanders rely on. These actions also won't solve another problem New Zealand faces – a structural deficit.

Recently though, some commentators have suggested New Zealand can have strong public services and adequate infrastructure – while maintaining fiscal responsibility[1,2]. Ratings agencies don't require countries to cut public services and neglect critical infrastructure to achieve a high credit rating. What they do require – is expenditure to be covered by income, and debt to be used for productive assets.

"The result? New Zealand has an infrastructure deficit estimated at over $200 billion. This deficit has hit the health system hard – with crumbling hospitals, inadequate facilities for safe patient care, ageing equipment, and failing data and digital systems. It is a catastrophic failure of political short termism."

This paper aims to kick start the conversation prompted by the WHO, in New Zealand. We desperately need a public conversation - what are the health services we expect, the infrastructure we need, and how are we going to pay for it?

In this paper commissioned by the ASMS, Dr Ganesh Ahirao explores New Zealand's fiscal settings – and how governments have room to move within these settings. Decisions can be made that support strong public services and fiscal responsibility. We have less government debt than other countries. We also have lower taxes than other countries – particularly those with infrastructure and services we envy. Even within the existing framework set out in New Zealand's Public Finance Act 1989, different choices are available for how governments can provide the public services New Zealanders expect and the infrastructure we need.

The problems we face are not unique, and the World Health Organization (WHO) has recently called for member states to examine how health and the economy intersect; how fiscal policy can support investment in health; and to open up dialogue between the health and public finance sectors to consider the balance between economic, social and environmental factors in decision making.

This paper aims to kick start the conversation prompted by the WHO in New Zealand. We desperately need a public conversation - what are the health services we expect, the infrastructure we need, and how are we going to pay for it?

This is the third paper in our deep dive on health funding.

Sarah Dalton
Executive Director, Toi Mata Hauora Association of Salaried Medical Specialists

1 Forward, Tayla. Fiscal responsibility doesn't mean what Nicola Willis thinks it means. The Post. August 28, 2025. Accessed from: https://www.thepost.co.nz/nz-news/360797892/fiscal-responsibility-doesnt-mean-what-nicola-willis-thinks-it-means

2 Neville, Alice. Should we fret about public debt? The Spinoff. August 28, 2025. Accessed from: https://thespinoff.co.nz/politics/28-08-2025/should-we-fret-about-public-debt

Summary

The objective of social and economic prosperity needs to be prioritised in the setting of fiscal policy.

To prosper, the nation and its communities need to nurture and invest in its basket of productive resources. These include natural eco-systems, the built physical infrastructure, networks, equipment, machinery, and people – their health, their skills, their knowledge, their experiences, and their communities.

Resilience to surprise shocks such as pandemics and climate events requires more than fiscal buffers, or 'headroom'. True economic resilience also requires strong and connected communities, accessible public services, modern communication and information networks, alongside a well-trained workforce respected for its capability and its adaptability.

Current fiscal policy settings continue to constrain efforts to prosper and to build resilience. These settings jeopardise living standards, wellness, and overall prosperity.

Without urgent change, current efforts to lift prosperity will fail and the legacy to be passed to future generations is likely to include a neglected and degraded basket of productive resources.

However, a robust but broader interpretation of fiscal rules can allow supportive fiscal policy settings to enable a *Health for All* agenda and ensure a fit-for-purpose legacy for future generations.

2 Executive summary

Deficits and debt provide the headlines and clickbait commentary for most fiscal policy and government Budget announcements.

From a financial accounting perspective, the government's deficit – arising from spending more than it receives in revenue – and its consequent financial debt, are important measures to monitor. However, the *default prioritisation* of these measures has been reflected in legislation developed over the past 30 years.

The Public Finance Act 1989 (PFA) – and in particular section 26G – arguably constrains fiscal policy according to a set of rules that prioritises the control of deficits and debt.

2.1 A broader interpretation of fiscal rules is required

This legislation, though, is not prescriptive. Rather, it provides a set of principles for responsible fiscal management. Further, these principles allow considerable leeway to pursue a range of fiscal settings, as suits the government of the day. However, it is both the narrow interpretation and the narrow application of these principles that have resulted in a set of fiscal rules that have been argued by successive governments as constraining their fiscal choices.

In particular, the delivery of a *Health for All* agenda could be delivered without contravening the principles of responsible fiscal management. Alternatively, such an agenda is not constrained by the existence of the fiscal rules.

What is Health for All?

The 2023 final report from the WHO Council on the Economics of Health for All provides 13 recommendations across four interrelated pillars of valuing, financing, innovating, and strengthening public capacity for *Health for All.*

Council Chair Professor Mariana Mazzucato begins her preface to the final report with:

> ***A healthy population is not just human and social capital, or a by-product of economic growth. Health is a fundamental human right. Alongside a healthy and sustainable environment, human health and wellbeing must be the ultimate goal of economic activity.***

This statement, from an eminent economist, rightly places front and centre the question of the objective of economic activity. There is a clear inference that economic activity is not a goal in and of itself. Rather, economic activity is pursued insofar as it contributes to the pursuit of arguably higher, more fundamental, objectives surrounding the health of our climate and our people.

The WHO constitution similarly portrays aspirations for health as fundamental rights, rather than subservient to the needs of economic activity:

> ***Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity…the enjoyment of the highest attainable standard of health is one of the fundamental rights of every human being without distinction of race, religion, political belief, economic or social condition.***

The final report from Professor Mazzucato's Council culminated in a World Health Assembly Resolution passed in 2024 urging member states to:

> ***consider the interlinkage between health and the economy and include an economy of well-being perspective horizontally into national policies and put people and their health and well-being at the centre of policy-making***

and to:

> ***support knowledge and information exchange on fiscal policy in support of shifting greater investment in and development of common goods for health to promote economic, environmental and social sustainability, according to budgetary possibilities, while ensuring their efficiency and fiscal sustainability.***

As a member state, New Zealand is obliged to report its progress on implementation of this resolution.

These considerations motivate this paper to discuss the general objectives of economic activity in the context of the provision of health as a fundamental human right. The primary motivation though is to ask whether New Zealand's fiscal framework and the imposition of its current fiscal rules are compatible with *Health for All* agenda.

In terms of the deficit and debt headlines, the principles require reducing total debt to prudent levels, and thereafter ensuring deficits are avoided by ensuring expenses do not exceed revenues. Other principles call for 'buffers' to be maintained and the prudent management of fiscal risks, alongside the formulation of revenue and fiscal strategies.

Adopting a broader interpretation of these principles, and thereby enabling the delivery of a *Health for All* agenda, would include:

- explicitly defining prudent total debt as the financial debt required to ensure the meeting of obligations to future generations in providing fit-for-purpose infrastructure, community – including health – and other network assets
- applying the reduction of total debt over a time horizon that is consistent with the above future obligations
- formulating a revenue strategy that recognises the need to meet increasing demands for public services – in particular, for health services associated with both demographic and community expectations of levels of service quality
- promoting the fairness criterion for the revenue strategy to recognise that current tax rates, and current tax base and systems appear to ignore this criterion.

2.1.1 Practical application to implement Health for All

Alongside a broader interpretation of such rules (or principles), their practical application would also need to be broadened to enable *Health for All*. In particular, a broader application would require:

- adopting a less conservative debt trajectory noting:
  - the Treasury assessment of a ceiling of net core Crown debt 50 per cent of GDP (being the mid-point of the recommended range 40-60 per cent of GDP) as being prudent[3]
  - the Treasury ceiling includes a 'buffer' of 40 per cent of GDP to allow for multiple large negative events (shocks) on the nation[4]
  - the Treasury assess a maximum sustainable net core Crown debt ceiling of 90 per cent of GDP (being the mid-point of the 80-100 per cent of GDP range) – given, arguably conservative, assumptions[5]
  - international credit rating agencies have consistently expressed comfort in the New Zealand government debt levels
  - significant under-investment in physical (non-financial) assets over recent years (in health and associated public services) requires urgent addressing before becoming irreversible, suggesting a time horizon for the reduction in financial debt of noticeably longer than a 3-year election cycle
- formulating a revenue strategy that includes increases in tax revenue – through rate increases and/or a broadening of the tax base – in absolute $ terms as well as in per cent of GDP terms
  - noting significantly higher service delivery and accompanying workforce requirements are consistent with demographic changes as well as rising demands and expectations for public health services across all primary health and associated ancillary services, specialist care, and 24/7 emergency facilities

3 The current government short-term intention is to bring net core Crown debt to below 40 per cent of GDP, and long-term objective is to maintain net core Crown debt within a range of 20 to 40 per cent of GDP. Net core Crown debt as at June 2024 was recorded as 41.7 per cent of GDP.

4 This 'buffer' is, arguably, ultra-conservative. In Treasury's words "... a large shock of 40 per cent of GDP ... has a low likelihood of materialising in any given decade. This buffer assumes a **high degree of risk aversion** and allows for the larger end of possible shocks, or multiple shocks in a short space of time." (emphasis added). Forward T and Foreman M (2025, forthcoming) make similar observations.

5 A real interest rate of 3%, an interest rate differential of 1%, and real growth of 2% per annum.

- noting that other public services – for example, housing, food and energy security, and community connection – are required alongside health services to maximise desirable outcomes in terms of improved living standards, hauora, and future opportunities

A broader application of these principles enables more than one lever to be pursued to reach the stated operating balance as well as debt targets. Including tax revenue as a genuine fiscal policy lever effectively ensures spending cuts are not the only option in a budget setting process targeting debt reductions. Importantly, a broader interpretation of the fiscal rules without a similarly broader application is unlikely to enable the implementation of a *Health for All* agenda.

2.2 Supported by a clearer understanding of the role of fiscal policy

The interpretation and application of the principles of fiscal management are inherently political choices made by the government of the day. These choices are reflected in the numerous amendments and changes over many years to the definitions adopted for the debt and operating balance measures. For example, the current government's application of a debt target even more austere than the ceiling advised by Treasury – which was assessed as consistent with the principles – reflects a political choice.

Additionally, the time horizon for the achievement of debt reductions is not explicitly stated in the principles, but the adoption of a relatively short-term time horizon congruent with the 3-year election cycle has all the hallmarks of political expediency. Further, negating the 'fairness' criterion in favour of the 'predictability' and 'stability' criteria when developing their revenue strategy has been a choice made by successive governments.

Consequently, applying a broader interpretation requires explicit support for political decisions that differ from a status quo that – inherently – derives from a 'small government' approach to fiscal management.

2.2.1 'Government as household' is an insidious myth

That support needs to begin with a rejection of the deficits and debt clickbait surrounding fiscal and Budget announcements, to recognising a more nuanced and pro-active role for fiscal policy and overall government activity. Similarly, an outright repudiation of the 'government as a household' myth would assist in building support needed for political choices for a broader interpretation and application of fiscal management principles.

Bluntly, unquestioningly using the metaphor of a household is wrong, dangerous, and insidious. It is simplistically designed to support a pre-determined narrow role for government and so protect the status quo of a small government constrained by low tax revenues.

Yes, there are similarities between the obligations of a household and those of a government. For example, both have a responsibility to look after their members and their various needs and aspirations. These may include the provision of nutrition, shelter, clothing, alongside securing conducive environments for physical and mental health, spiritual and emotional support, and community connections. And both are likely to have aspirations of leaving legacies for future generations.

But in terms of the financial (or fiscal) sphere, government is critically different from a household because it:

- can borrow without collateral – that is, in contrast to a household, government can issue financial debt without taking out a mortgage on their house or business
- can refinance its debt indefinitely, which many governments do
- can borrow at more favourable interest rates than any household or business
- has the power to tax

- can make decisions that significantly improve the position of households and businesses
- can co-ordinate with (or act against) other policy tools (eg. monetary policy, industry policy, health and other social service provision) that will impact on the economic and social outcomes of people, businesses, households, and their communities
- can influence the revenue and spending plans of businesses and households as elements of tax revenue and social security payments are closely related to the economic cycle.

The role and function of government goes far beyond acting as a household. Government is an inter-generational agent and must act to ensure long-term financial and economic investments in people and communities of today and tomorrow.

Providing governance oversight of the economy to ensure its direction and activity are consistent with community values goes far beyond the principles of responsible management of its financial (fiscal) accounts specified in section 26G.

2.2.2 A sophisticated and mature use of financial debt

Another homily often heard is that 'debt leaves a burden for our children and grandchildren to bear'. And, yes, financial debt incurs obligations and responsibilities and may limit future choices. But it is the nature of that debt – and who it is owed to – that makes a huge difference to legacy arguments.

When assessing the burden passed to future generations from the financial debt of government, it is critical to also understand:

- who holds the equivalent financial assets
- the nature and quality of other (non-financial) assets and debts that future generations will inherit.

Where the equivalent financial assets are owed to other New Zealanders, there is no net financial burden – that is, the debt and assets 'cancel out' each other – as both the debt and the assets are passed to future New Zealanders.

However, non-financial assets and debts are similarly – if not more – important in assessing the value (or burden) transmitted through inheritance and legacy. For example, building and health infrastructure assets could be left in fit-for-purpose condition transmitting intergenerational value, while dilapidated assets requiring significant renewal and upgrade, alongside workforce shortages as opportunities elsewhere become increasingly attractive, reflect a real debt burden passed to children and moko.

2.3 Reinforced by explicit connections to economic constraints

Ideally, fiscal rules would be subservient to the principles of economic management which, in turn, would be subservient to economic governance responsibilities embracing kaitiaki obligations. This would explicitly take fiscal management (and, so, the Public Finance Act – including section 26G) out of its existing silo and rightly place it within broader economic and social policy and the goals of the people, their communities and nation.

While financial debt is not a constraining issue for government, the real constraints on prosperity (living standards, hauora, future opportunities) are the capacity and capability of the nation's *productive resources*. Productive resources include natural eco-systems, the built physical infrastructure, and people – their skills, their knowledge, their experiences, and their communities.

These resources reflect the real constraints on economic activity (and its ability to deliver on the aspirations of people and their communities). The use, maintenance, and improvement of these real[6] resources form the umbrella for economic governance. The objectives for such governance are for democratic processes

6 The term real is used by economists (and here) to stress the difference between physical and productive resources, and financial resources.

to agree. However it would be difficult to avoid kaitiaki obligations given that these productive resources are in a very real way the legacy left to future generations. In turn, responsible economic management (embracing fiscal policy, monetary policy, industry and infrastructure policy, and workforce and community development activities) is the instrument with which such governance is implemented.

For example, much is made of the need for government to have fiscal 'buffers' available given the likelihood of shocks to the economy. However, fiscal (ie. financial) buffers are only one component of the basket of real assets required in the face of an uncertain, volatile, and fragile world. Asserting the need for prudent management of fiscal accounts restricts the government role to one of a 'reactive' agent and downplays any pro-active role it should (or may be able to) play.

This perspective also implies that financial readiness is sufficient for resilience to shocks. While financial reserves are useful when needing to absorb and recover from shocks, a focus on building financial reserves ignores the importance of efforts to prepare for, anticipate, and learn from shocks[7].

For example, like many in Aotearoa, an earthquake kit is set aside including food, drinking water, a tent, warm clothing, cooking equipment and suchlike. There may be some cash (or a plastic card) in that kit, but it is unlikely to be the sole (or even primary) component. In the health sphere, the presence of a trained and agile workforce would be a critical component of any anticipating and/or preparing for unknown uncertain events or shocks.

Bluntly, in the face of a negative event (or external shock) access to real productive resources are significantly more critical to people and their communities, than is a stash of financial surpluses.

The role of the government in providing governance oversight for where and how the nation's productive resources are utilised, maintained, and improved needs to be the guiding context for any policy rules reflecting responsible fiscal management. Such policy rules, rather than contravening the principles of responsible fiscal management would align with the primary need for the good governance of scarce productive resources that are increasingly constraining community aspirations.

Or, in other words, being a good ancestor – acting as kaitiaki of the productive resources that we, ourselves, inherited in previous times.

7 *Improving Economic Resilience*, Productivity Commission, February 2024.

3 Introduction

The Constitution of the World Health Organisation places health as a fundamental human right.

Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity…the enjoyment of the highest attainable standard of health is one of the fundamental rights of every human being without distinction of race, religion, political belief, economic or social condition.

In contrast, conventional economic frameworks continue to consider health as an outcome – arising from growth in output, employment, and incomes. The contrast with fundamental human rights can be particularly stark when financial constraints leave some (or many) unable to access an acceptable standard of health.

3.1 *Health for All* – a call for action

The World Health Organisation, in its 2023 report, called for *Health for All* to be placed at the centre when social and economic systems are designed. A subsequent World Health Assembly Resolution urges member states to consider:

> ***the interlinkage between health and the economy and include an economy of well-being perspective horizontally into national policies and put people and their health and well-being at the centre of policy-making.***

At the heart of the call to action lies the critical question of the objective of an economy. Further, there is an open question as to whether economic goals rank higher than those of health and wellbeing of people and their communities. Arguably, the goal of economic growth has been broadly accepted for some time as necessary, if not sufficient, for overarching societal objectives. However, the failure of economic growth to deliver health services for many across a range of communities and nations suggests a re-framing is required.

This is further emphasised by Council Chair Professor Mariana Mazzucato, who begins her preface to the final report with:

> ***A healthy population is not just human and social capital, or a by-product of economic growth. Health is a fundamental human right. Alongside a healthy and sustainable environment, human health and wellbeing must be the ultimate goal of economic activity.***

There is a clear inference that economic activity is not a goal in and of itself. Rather, economic activity is pursued insofar as it contributes to the pursuit of arguably higher, more fundamental, societal objectives surrounding the health of our climate and our people. There is also a recognition of a potential two-way relationship between a healthy population and economic activity. This contrasts with the arguably more conventional approach of a one-way causality from economic growth to a healthy population. Whether a healthy population is an externality (by-product) - or an integral component (or indeed determinant) – of economic growth can alter the lens through which economic policy decisions are weighed.

This motivates this paper to discuss the general objectives of economic activity in the context of the provision of health as a fundamental human right.

3.2 Rationale for paper

Calls for better funded public services – whether they be seen as rights, or as nice to haves – almost always elicit a common response. Whether it's for health services – dental care, 24/7 ER facilities, maternity care, mental health supports – or schooling, workforce training, or science and research activities, responses circulate around an assertion of limited finances. Yes, there are variations in the theme, but most will have heard at least one version – many repeated several times at various points in the economic/social/political cycle of the day:

- we can't afford it
- we'll get to it when we can afford it
- there is no money
- there is no money tree
- show me the money
- we need to pay off the debt first, then we can address these matters

or, for a more sophisticated audience, the responses echoed may include:

- we must focus on productivity, then we'll be able to afford these things
- there are difficult trade-offs to be made, as we can't satisfy all demands
- the government has limited resources to meet the demands of the populace.

However, it is only in the last bullet where we approach a reason that has potential substance. But that substance depends on the definition of the term *resources*. The distinction between *financial* resources and *economic* resources underlies much of the argument in this paper. It is pertinent to note that the World Health Assembly Resolution in response to the final report of Professor Mazzucato's Council continues by urging member states:

"to support knowledge and information exchange on fiscal policy in support of shifting greater investment in and development of common goods for health to promote economic, environmental and social sustainability, according to budgetary possibilities, while ensuring their efficiency and fiscal sustainability."

As a member state, New Zealand is obliged to report on the progress of its implementation of this resolution. Hence, alongside the motivation discussed earlier, there is a rationale for this paper to press a finer focus on New Zealand's fiscal framework. In particular, we ask whether the nation's fiscal framework is compatible with a *Health for All* agenda. Alternatively, we query the authenticity of claims to financial constraints and ask whether different interpretation of the fiscal framework could result in a relaxation of such constraints.

Section 4 outlines the *Health for All* agenda and looks at the relevance to Aotearoa of its recommendations. Section 5 provides a primer for budgets, financial and fiscal concepts[8], and discusses the critical aspects of the New Zealand fiscal policy framework, with a particular focus on the interpretation and application of section 26G of the Public Finance Act. Section 6 provides options that could enable the progress of a *Health for All* agenda, either working within the current framework or devising a new framework. Concluding comments follow in Section 7.

8 A glossary of selected terms and abbreviations is provided in section 8.

4 Requirements for a *Health for All* agenda

The final report of the WHO Council on the Economics of *Health for All* argues for a new economic narrative surrounding policy settings and transforms financing for desired health outcomes.

For too long, the economy has been seen as an entity and an objective in and of itself. A self-serving economic narrative has fostered a "too-big-to-fail" perspective, implying that any changes impacting on economic growth would have catastrophic consequences. Consequently, potential financial impacts on growth and *the economy* have stymied improved health for many. Additionally, as a range of individual, community and societal outcomes have continued to disappoint, there is an increasing sense that economic growth alone is not sufficient to deliver across a range of expectations.

World Health Organization Council on the Economics of *Health for All*

Summary of Recommendations

The WHO Council on the Economics of *Health for All* has called for shifts in economic thinking – in each country, region and globally – to prioritise Health for All. Drawing on the Council's previous work, this final report provides 13 bold recommendations across four interrelated pillars.

Pillar 1 – Valuing *Health For All*

1 **Valuing the Essential:**
Treat health and wellbeing, health workers and health systems as a long-term investment, not a short-term cost.

2 **Human Rights:**
Use legal and financial commitments to enforce health as a human right.

3 **Planetary Health:**
Restore and protect the environment by upholding international commitments to a regenerative economy which links planet and people.

4 **Dashboard for a Healthy Economy:**
Use a range of metrics that track progress across core societal values, above and beyond the narrow, static measure of GDP

Pillar 2 – Financing *Health For All*

5 **Long-Term Finance:**
Adopt a comprehensive, stable approach to funding *Health for All.*

6 **Quality of Finance:**
Redraw the international architecture of finance to fund health equitably and proactively, including an effective and inclusive crisis response.

7 **Funding and Governance of WHO:**
Ensure WHO is properly funded and governed to play its key global coordinating role in *Health for All.*

Pillar 3 - Innovating for *Health For All*

8 **Collective Intelligence:**
Build symbiotic public-private alliances to maximise public value, sharing both risk and rewards.

9 **Common Good:**
Design knowledge governance, including intellectual property regimes, for the common good to ensure global equitable access to vital health innovations.

10 **Outcomes Orientation:**
Align innovation and industrial strategies with bold cross-sectoral missions to deliver *Health for All.*

Pillar 4 – Strengthening Public Capacity for *Health For All*

11 **Whole-of-Government:**
Recognise that *Health for All* is not just for health ministries but for all government agencies.

12 **State Capacity:** Invest in the dynamic capabilities of the public sector, institutionalising experimentation and learning, to lead effectively in delivering *Health for All.*

13 **Build Trust:**
Demonstrate transparency and meaningful public engagement to hold governments accountable for the common good.

Health outcomes are clearly one element forming a group of unmet expectations. Alongside a new economic narrative, the *Health for All* agenda promotes a proactive role for governments in collaboration with private sector actors and markets. Above all, the recommendations aim to take the priority away from financial and/or economic targets, and require economic objectives and activities to first and foremost serve the needs of people and the planet. Providing the economy with an explicit objective that is not a solely economic goal highlights that economic activity is a vehicle travelling towards an end. In contrast, the current narrative for the economy is self-serving in that it sees economic activity as an end in itself[9].

Of the 13 recommendations in the WHO final report, six are particularly relevant to a proactive role for government and a narrative transformation.

- **01 – Valuing the essential:** Treat health and wellbeing, health workers and health systems as a long-term investment, not a short-term cost.
- **04 – Dashboard for a healthy economy:** Use a range of metrics that track progress across core societal values, above and beyond the narrow, static measure of GDP
- **05 – Long-term finance:** Adopt a comprehensive, stable approach to funding *Health for All*
- **08 – Collective intelligence:** Build symbiotic public-private alliances to maximise public value, sharing both risk and reward
- **11 – Whole of government:** Recognise that *Health for All* is not just for health ministries but for all government agencies
- **12 – State capacity:** Invest in the dynamic capabilities of the public sector, institutionalising experimentation and learning, to lead effectively in delivering *Health for All*.

Further, the above particular recommendations highlight areas relevant for fiscal policy:

- the distinction between short-term consumption spending for delivery of services and longer-term investment spending required for improvement of capacity and productive resources
- the delineation between public sector and private sector provision of services
- the role of redistribution and/or an equity perspective on access to services
- the responsibility to ensure an adequate workforce and institutional capability and infrastructure, alongside ongoing education, research, and training programmes.

The recommendations aim to take the priority away from financial and/or economic targets, and require economic objectives and activities to first and foremost serve the needs of people and the planet.

9 A proactive role for government in an economy tasked with an explicit non-economic objective is at the heart of the Professor Mazzucato's 2021 *Mission Economy: A Moonshot Guide to Changing Capitalism.*

For a *Health for All* agenda to be implemented in Aotearoa, obligations to Māori must be acknowledged and addressed. In particular, there must be allowances for community (as well as individual) approaches for health care alongside other social, community and economic services.

4.1 Te Tiriti o Waitangi

For Aotearoa, a *Health for All* agenda must also capture Te Tiriti obligations and responsibilities. In particular, Article 3 of Te Tiriti provides all in Aotearoa with the same rights and duties.

It is widely recorded that health outcomes for Māori have been – and continue to be – significantly inferior to those for non-Māori. Currently, the Waitangi Tribunal are undertaking a kaupapa inquiry into Health Services and Outcomes (Wai2575), with its initial stage one report (2023) noting:

> *As a population group, Māori have on average the poorest health status of any ethnic group in New Zealand. We also received uncontested statistical evidence demonstrating that, despite reform and readjustments, Māori health inequities have persisted in the nearly two decades since the Act was introduced. All parties to stage one of this inquiry, including the Crown, consider the poor state of Māori health outcomes unacceptable.*

For a *Health for All* agenda to be implemented in Aotearoa, obligations to Māori must be acknowledged and addressed. In particular, there must be allowances for community (as well as individual) approaches for health care alongside other social, community and economic services. In addition, the acknowledgement of long-term intergenerational harms – and so the opportunity for long-term intergenerational benefits – must also be recognised.

In addition, Tino Rangatiratanga would require iwi/Māori to have autonomy in terms of decision making over sufficient resources to deliver desired health outcomes. In this context, sufficient resources would include both financial resources for the purchase of goods and services (eg. medications, rongoā, vaccinations, and clinical treatments), as well as productive resources to enable the direct delivery of services (workforce and network infrastructure).

While the institutional structures and reporting requirements for such autonomy would also need to be agreed and established, agreement on higher-level objectives (and consequent performance indicators) would be critical to assess the required resources. Such higher-level objectives would be where longer-term intergenerational considerations are captured. Undoubtedly, placing economic activity and the economy in the service of whānau, hapū, and iwi needs, beliefs and aspirations would provide impetus to transform the narrative around the financials of health outcomes. In turn, economic activity tasked with such objectives would be relevant for the fiscal policy framework that allowed a choice of appropriate fiscal rules, as outlined in later sections.

5 New Zealand fiscal policy and its framework

5.1 Budgeting and fiscal policy primer

Budgets represent the financial plans (usually over a year) of an organisation's expected revenue and spending. Part of the process in setting a budget is a selection of parameters that can assist decision-makers and managers to formulate their budget plans. These parameters can take the form of hard 'targets', or guidance for monitoring performance.

Importantly, budgets capture financial transactions only so these targets (or performance indicators) are solely about financial results/outcomes. Other performance or activity measures (eg. levels of service delivery like hours of GP consultations or mammogram x-rays assessed) may be linked to budget numbers[10], but they need not form an explicit part of budget statements.

The term 'fiscals' is used as a metaphor for financials relating to a government's financial transactions (its revenue and spending), as distinct from those of other organisations.

In turn, *fiscal policy* represents the choices or decisions that Government makes in terms of how much revenue it expects to receive and how much it plans to spend. Fiscal policy can also cover the more detailed choices over who and how it receives taxes and on what specific items (goods and/or services) it spends.

The composition of these choices makes up a government's fiscal policy stance.

Critically, the difference between how much government receives in revenue and how much it spends (the budget surplus/deficit balance) provides a headline summary of the government's fiscal policy. At its most simplistic level – and from a short-term perspective – a government's fiscal policy stance can be seen as providing an impetus to, or restraining, the level of economic activity.

- When there is a surplus, fiscal policy may be termed contractionary – in that more financial funds are withdrawn by fiscal transactions (through taxes and other government receipts) than is injected (through spending) from economic activity.
- When there is a deficit, fiscal policy is termed as expansionary – in that less financial funds are withdrawn by fiscal transactions (through taxes and other government receipts) than is injected (through spending) from economic activity.

A government's plans for its revenue and spending are contained within its annual Budget announcement. This then forms the basis of judging the government's fiscal policy stance (at a simplistic level) in terms of its expected short-term impact on economic activity.

In this context, the parameters (whether guidance or targets) that form part of the government's budget setting process can range from:

- total spending
- total revenue
- fiscal balance (deficit or surplus)
- net debt and/or gross debt
- net worth.

10 They may be included as some of the guidance parameters to assist managers in their budget plans.

Note that these parameters can also be specified in various units of measurement, for example:

- as their absolute $ amount
- as a % change from the amount in the previous period (eg. %pa growth)
- as a % change in real terms (ie adjusting for price changes) from the previous period (eg. %pa real growth)
- as a % of GDP, (noting further that this ratio can be expressed using nominal GDP (ie without adjusting for price changes) or real GDP (ie adjusting for price changes)
- as a figure per person (eg. $ per capita).

Such parameters could apply guidance (or target) for the current year, or for an average over a multiple year horizon (for example, over an economic cycle), or for a specified future year.

Additional dimensions providing even more parameters for government to consider include whether to include all Crown activities, or core Crown activities, or the many sub-classifications of Crown and statutory entities, departments and agencies.

More on debt

At its broadest level, debt can be both financial and non-financial. Additionally, for all debt there exist equivalent assets.

Financial debt

Debt can be viewed as the accumulation of the borrowing that has occurred in previous years that has yet to be repaid, in addition to the interest payments that is owing on the outstanding borrowing.

Gross debt is the total of all borrowing that has occurred but not repaid. Net debt is equal to gross debt minus any assets held. For example, a total of $5,000 owing on your credit card may represent your gross debt. But if you also had a $3,000 term deposit then your net debt would be $2,000.

Government debt

The critical aspect for government financial debt is who owns the equivalent asset. In other words, who did the government borrow from? If the borrowing is from others in Aotearoa[*], then that debt is effectively owed to ourselves: interest is paid to the Aotearoa resident holders of the government debt (who hold these assets) and the next generation of these holders will inherit these assets. In turn, the government debt will eventually be repaid to those future residents of Aotearoa (or be re-financed by other future residents of Aotearoa).

Some of previous government borrowing is from foreigners. This debt does create a potential financial and economic burden for the nation. This portion of government debt requires interest and re-payments to be made effectively[^] in foreign currency. In turn, this means more export earnings need to be accrued by future generations in Aotearoa. Alternatively, future generations may be unable to enjoy as many imported products. As a result, government debt that is held by foreigners carries a real resource cost (productive resources allocated to earn export revenue) borne by future residents of Aotearoa.

Non-financial assets and non-financial liabilities (debts)

Physical infrastructure and other elements of productive resources can be viewed as non-financial assets held (owned) individually and collectively by the current generation of the people and communities of Aotearoa.

Where these assets are degraded or no longer fit-for-purpose, such as polluted waterways or under-maintained hospitals, they become liabilities (rather than assets) for our communities. Such liabilities are the equivalent of non-financial debt – held individually and collectively – passed to future generations as they will need to devote resources to convert such liabilities into productive assets.

However, where these assets are currently in good shape – ie fit for purpose for future events – we can be reassured that we are indeed passing on valuable assets (and not liabilities). Such assets can then be seen as (more than) balancing out any financial debt that may also be passed on to future generations.

In contrast, if the non-financial assets are not currently in good shape, then we are more likely to be creating and passing on a non-financial debt (or, a liability) as resources will be required to make them fit-for-purpose. Such non-financial debt would be in addition to any financial debt that was being passed to future generations.

Ideally, a more fit-for-purpose indicator of intergenerational legacy or burden would be a comprehensive net asset measure capturing both financial and non-financial assets and liabilities (debts).

* Over the past 15 years between 20% and 50% of NZ Government Bonds has been held by resident investors. Latest (May 2024) figure was 38%. https://debtmanagement.treasury.govt.nz/investor-resources/economic-overview.

^ While the NZ Treasury's Debt Management Office borrows predominantly in NZ dollars, borrowing from (and interest and repayments to) foreigners is effectively channelled through the foreign exchange market – thereby impacting on the demand for foreign currency.

5.2 Moving to a formal fiscal policy framework

While the budget surplus/deficit has been seen as a critical (or sole) measure of fiscal performance, earlier times saw the budget balance number openly manipulated with little regard to accounting conventions. Relatively cavalier financial accounting (for example, through the inclusion of revenue from one-off asset sales to bolster a reported surplus) undermined financial oversight of government actions.

A stricter accounting oversight of the New Zealand Government and its finances had their origin in the 1980s. In response to the wide-ranging controls on economic activity developed over the post-WWII era and the somewhat cavalier approach to some of its actions, there was a desire to curtail the role and function of government. This shift in perspective coincided with the global direction of more market-oriented economic policy.

At the same time the parameters that many organisations see as guides in their processes to set a budget came to be seen as *fiscal rules* for governments to follow. These parameters were absorbed into legislative requirements – capturing accounting, monitoring, reporting, and accountability obligations – initially through the Fiscal Responsibility Act 1994.

5.3 The legislation

The Fiscal Responsibility Act 1994 was designed to ensure responsible fiscal management through transparent reporting and accountability requirements alongside guides focussed on the sustainability of the government's financial accounts. Noticeably, the Act was almost exclusively concerned about the government's financial transactions – ie. its fiscal stance and its implementation of fiscal policy, and subsequent reporting requirements in its accounts. Importantly, all the requirements stated in the Act highlighted and prioritised financial rather than economic targets, goals, concepts or perspectives.

This Act was subsequently subsumed into the Public Finance Act 1989, with the widely-accepted core detailing the principles of responsible fiscal management becoming Section 26G of the PFA. Recent amendments to the PFA were enacted in 2020 to enable the consideration of wellbeing concepts, although they have recently been removed.

Section 26G of the Public Finance Act 1989

26G Principles of responsible fiscal management

1. The Government must pursue its policy objectives in accordance with the following principles (the principles of responsible fiscal management):
    a. reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year; and
    b. once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues; and
    c. achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future; and
    d. managing prudently the fiscal risks facing the Government; and
    e. when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates; and
    f. when formulating fiscal strategy, having regard to the interaction between fiscal policy and monetary policy; and
    g. when formulating fiscal strategy, having regard to its likely impact on present and future generations; and
    h. ensuring that the Crown's resources are managed effectively and efficiently.

5.3.1 Section 26G of the PFA

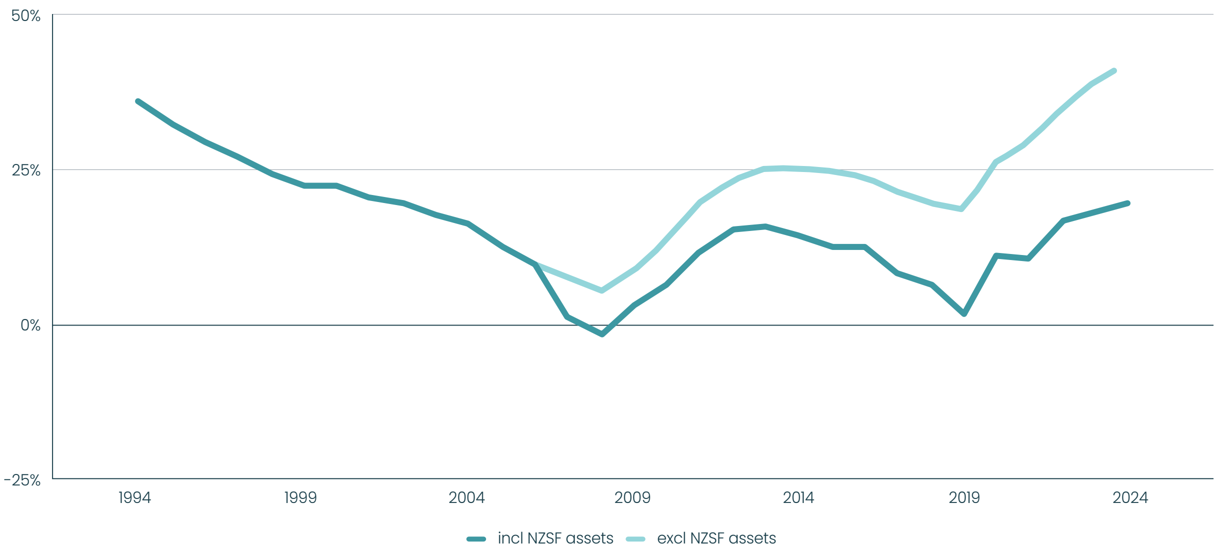
Section 26G[11] begins by establishing unambiguously the primacy of fiscal matters above all other policies. The statement "The Government **must** pursue policy objectives in accordance with the following principles…" (emphasis added) is paramount. Following this statement the "principles of responsible fiscal management" are detailed. There are eight principles requiring:

- a reduction in total debt to prudent levels
- maintaining total debt at a new lower level
- total net worth at a level to provide a buffer
- prudent management of fiscal risks
- a revenue strategy
- recognition of interaction between fiscal and monetary policy
- recognition of impact on present and future generations
- effective and efficient management of Crown resources

It is important to note that both total debt[12] and prudent levels are not explicitly defined in this legislation. However, the combination of the first two principles carries a clear implication that "total debt" (however that may be specified) is currently too high. Together, these two principles force the government consistently to run an operating surplus (or close to balance), meaning spending must remain below (or equal) to revenue.

It is also pertinent to note that the first principle – explicitly requiring a ***reduction*** in "total debt" – has remained in place for more than 30 years despite various indicators of debt having declined considerably over that period. As illustrated in Figure 1, net core Crown debt including NZSF assets has declined in 10 of the past 30 years, with the increases associated with the post-global financial crises (GFC) and the post-COVID years. Further, this measure has remained well below 25 per cent of GDP for 25 of the past 30 years and is currently well below its level of 30 years earlier.

Figure 1: Net core Crown debt 1994-2024



Source: NZ Treasury FSM

11 A copy of the Section is provided on page 22.

12 Note that the original Fiscal Responsibility Act specified a reduction in "total Crown debt".

The wording of the principles relating to total debt and total net worth asserts a need for a buffer. However, the buffer is explicitly required to act against factors that may adversely impact, respectively, total net debt and total net worth. Noticeably, the need for a buffer is not predicated on the risk of shocks impacting the economic cycle, or on productive resources, or on individuals, families, whānau, businesses and/or their communities. This is reinforced by the fourth principle that requires prudent management of fiscal risks – again, the absence of economic or social and community risks from management obligations and budget setting processes is glaring.

There is no allowance to build buffers against factors that may adversely impact the economic position of the nation, or indeed, adversely impact the policy objectives of the Government.

As to a revenue strategy, the wording of the fourth principle explicitly notes the need for efficiency, fairness, predictability, and stability of tax rates. This establishes a clear bias against changes in tax rates (and, by inference, any broadening of the tax base). The only gap that may allow tax rate and/or base changes is the "fairness" criterion. In particular, there is no acknowledgement of (or reference to) requiring sufficient revenue to meet community demands for public (or collective) goods and/or services.

Indeed, meeting the needs of community demands for the provision of goods or delivery of services seems incredulously absent in guidance or principles (or rules) for budget processes to follow. Consequently, there is no surprise that guidance for spending, or an expenditure strategy, is similarly absent. However, spending principles can be inferred as being secondary to the principles regarding total debt and total net worth.

Hence, while there is an explicit requirement for a fiscal strategy, such a strategy is effectively pre-determined by the above constraints on revenues and spending.

5.3.2 Objectives

Interestingly, these principles omit any connection to the achievement of economic or other policy objectives. Other policy objectives remain subsidiary to the principles of responsible fiscal management.

A circularity of the argument is reflected in Section 26J of the PFA[13]. This section establishes the requirement for a fiscal strategy report including statements of long-term objectives. However, there are no requirements for fiscal management to be consistent with long-term objectives for any economic or other Government policy – for example, for the delivery of health services or, perhaps a *Health for All* agenda. Rather, the stated objectives are for fiscal measures alone, as follows:

- total operating expenses
- total operating revenue
- operating balance
- level of total debt
- level of total net worth

13 A copy of the Section is provided on page 26.

Example Health for All objectives for Aotearoa

- establishing minimum targets for access to 24/7 emergency care facilities
- meeting Te Tiriti obligations to ensure Māori access to health services and subsequent health outcomes are equivalent to non-Maōri
- minimising the impacts of the so-called post-code lottery for elective surgery
- addressing the differences between Māori and non-Māori health outcomes

There is an incredulous and breathtaking circularity within this framework. Section 26G establishes that responsible fiscal management requires reductions (and then maintenance) of total debt and net worth, while section 26J requires the statement of long-term objectives for debt and net worth.

There is no connection – explicitly or implicitly – to matters beyond fiscal management. Further, and arguably more insidious, as noted earlier this framework places fiscal management in a position of primacy – above all other government policy objectives.

Together, the principles and the long-term objectives of responsible fiscal management imply that the achievement of – and adherence to – responsible fiscal management is an objective in and of itself.

This legislated framework begs the core questions:

- What makes these principles responsible? what are the objectives against which the exercise of responsibility (or not) can be assessed?
- For what (economic or other government policy) purpose is responsible fiscal policy management aiming to achieve?
- For what (economic or other government policy) purpose are net debt and net worth buffers required?

Section 26J Contents of fiscal strategy report: long-term objectives

26J Contents of fiscal strategy report: long-term objectives

1. The fiscal strategy report must—
   a. state the Government's long-term objectives for fiscal policy and, in particular, for the following variables:
      i. total operating expenses:
      ii. total operating revenues:
      iii. the balance between total operating expenses and total operating revenues:
      iv. the level of total debt:
      v. the level of total net worth; and
   b. explain how those long-term objectives accord with the principles of responsible fiscal management; and
   c. state the period to which those long-term objectives relate (which must be a period of 10 or more consecutive financial years commencing with the financial year to which the fiscal strategy report relates).
2. The fiscal strategy report must also—
   a. assess the consistency of the long-term objectives referred to in subsection (1)(a)—
      i. with the long-term objectives in the most recent fiscal strategy report; or
      ii. if the long-term objectives in the most recent fiscal strategy report were amended in the budget policy statement most recently prepared under section 26M, with the long-term objectives stated in the statement; and
   b. if the long-term objectives referred to in subsection (1)(a) are not consistent with the long-term objectives in the most recent fiscal strategy report or in the budget policy statement most recently prepared under section 26M, justify the departure of the long-term objectives referred to in subsection (1)(a) from the long-term objectives in the most recent fiscal strategy report or in the statement.

5.4 Interpretation and application

However, even within this restrictive by design framework, its method of both interpretation and application has reinforced a highly narrow approach to fiscal policy. There are two specific elements in the way this framework has been applied by successive New Zealand administrations that have exacerbated this narrowness and accentuated the disconnection from economic and other policy objectives.

- A narrative encouraging a focus on an arbitrary total debt measure; and, in turn, interpreting *prudent* in an overly conservative manner without recourse to the changing demands of people and communities (alongside changing demographics, geoeconomic circumstances, and climate challenges) or other policy objectives.

  The definition of a *total debt* measure is reflected in numerous modifications – from net core Crown debt to net debt, from excluding NZ Superannuation Fund assets to including such assets. Over this period there have also been various levels of debt assessed as being equivalent to *prudent*[14].

- Accepting (and/or promoting) the clear bias against changes in tax rates (and, by inference, the tax base); thereby accepting (and/or promoting) the implication that current tax rates (and the tax base) are efficient and fair, and that the predictability and stability of tax rates (and the tax base) is preferred.

  This perspective results in a narrow application of the principles, as reflected in the practice of total debt (and consequently deficit) targets being sought predominantly through spending cuts. The reluctance to use tax rate and/or tax base changes in the pursuit of debt and deficit targets echoes the narrow application of a narrowly interpreted fiscal principle.

While there have been changes in nuance, the foundational structure of this narrow interpretation and narrow application of New Zealand's fiscal policy framework remains.

In a similar manner, there is the development of an arbitrary 'cap' on government spending of 30% of GDP. The lack of any economic logic in this limitation is reinforced by noting that government spending includes transfer payments (eg. Jobseeker Support benefit payments and New Zealand Superannuation), which are transactions that are not included in any measure of GDP. The economic meaninglessness of the ratio is breathless.

Neither the debt nor the expenditure objectives are related in any way to either:

- **changes in demands for the provision of public (or collective) goods and services**
- **additional demands for (or shortfalls of current) infrastructure, community, and other network assets**

Moreover, it is informative that there are both short-term fiscal intentions and long-term fiscal objectives for spending, despite there being no direct statement about spending in any of the principles delineated in Section 26G. Similarly, the revenue objective – which is inferred rather than explicit – is tied to the operating balance objective that (in turn) is tied to the debt objective. This leaves the revenue objective directly dependent on the expenditure objective. Consequently, the interpretation and application of the fiscal framework ensures an effective "cap" on the growth in revenues. In turn, revenues are also disconnected from the above changes or economic considerations.

14 The frequent changes to both the definition of total debt and the 'target' level being pursued, arguably, indicates a degree of arbitrariness to the interpretation and application of the rules. If sound and robust *economic* underpinnings to such rules were present, they would be reflected by less frequent changes being required.

5.4.1 The 2017 Budget Responsibility Rules

In an attempt (arguably) to clarify its fiscal policy approach prior to the 2017 General Election, the Labour and Green parties published a set of rules that continued a narrow interpretation and application of the fiscal policy framework. These rules stated an agreement to:

- deliver a sustainable operating surplus across an economic cycle
- reduce the level of net core Crown debt to 20% of GDP within five years of taking office
- prioritise investments to address the long-term financial and sustainability challenges facing New Zealand
- take a prudent approach to ensure expenditure is phased, controlled, and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP
- ensure a progressive taxation system that is fair, balanced and promotes long-term sustainability and productivity of the economy.

Despite some nuances in approach, it is clear that these rules reinforced and perpetuated the narrow interpretation and narrow application of the existing fiscal policy framework. In particular, the promotion of "long-term sustainability and productivity of the economy", while commendable, is curtailed by the adoption of rules limiting expenditure. In turn, the rules limiting spending are constrained by the operating surplus rule.

Fiscal intentions and objectives from December 2022 Budget Policy Statement (BPS)

Short-term intentions and long-term objectives for fiscal policy		
	Short-term intention	**Long-term objective**
Debt	Maintain total debt at prudent levels. Maintain net debt at below 30 per cent of GDP based on the new net debt measure including the New Zealand Superannuation Fund, subject to significant shocks. Gross debt is forecast to be 39.9 per cent of GDP at the end of the forecast period. Net debt is forecast to peak at 21.4 per cent of GDP in 2023/24 and reduce over the forecast period to 14.1 per cent of GDP in 2026/27.	Maintain total debt at prudent levels. Maintain net debt at below 30 per cent of GDP based on the new net debt measure including the New Zealand Superannuation Fund, subject to significant shocks.
Operating balance	Our intention is to return to an operating surplus (before gains and losses) by 2024/25, subject to economic and fiscal conditions. The operating balance (before gains and losses) is forecast to be 0.4 per cent of GDP in 2024/25. The operating balance is forecast to be 3.3 per cent of GDP in 2026/27.	Once the operating balance (before gains and losses) has returned to a surplus, our long-term objective is to maintain an average surplus in the range of 0 per cent to 2 per cent of GDP, subject to economic and fiscal conditions. This will ensure that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenue.
Expenses	Our intention is to ensure expenses are consistent with the operating balance objective. Core Crown expenses are forecast to be 30.9 per cent of GDP in 2026/27. Total Crown expenses are forecast to be 39.4 per cent of GDP in 2026/27.	The Government will ensure operating expenses support a responsible and proportionate role for the Government in maintaining a productive, sustainable, and inclusive economy, consistent with the debt and operating balance objectives.
Revenue	Our intention is to ensure revenue is consistent with the operating balance objective. Total Crown revenue is forecast to be 41.4 per cent of GDP in 2026/27. Core Crown revenue is forecast to be 33.4 per cent of GDP in 2026/27. Core Crown tax revenue is forecast to be 30.8 per cent of GDP in 2026/27.	The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives
Net worth	Our intention is to maintain net worth consistent with the operating balance objective. Total net worth attributable to the Crown is forecast to be 42.9 per cent of GDP in 2026/27.	The Government will use the Crown's net worth to maintain a productive, sustainable, and inclusive economy, consistent with the debt and operating balance objectives. Total Crown net worth is forecast to be 44.4 per cent of GDP in 2026/27. 28

5.4.2 The 2022 adjustments

More recently, a Treasury 2022 document[15] placed the fiscal rules explicitly in the context of sustainability and stability, as well as the ability to withstand shocks. Suggested modifications of the rules assisted with international comparability alongside clarity as to the interaction of the rules between current flows (revenue, spending, and operating balances) and stocks (assets and liabilities).

This paper and its recommendations – which were essentially adopted by the Government of the day – saw a revision to the debt measure to include assets held by the New Zealand Superannuation Fund, as well as the acceptance of a debt ceiling as opposed to a debt target. Arguably, these changes enabled a slightly more flexible approach to fiscal policy with a more balanced view of debt alongside the asset side of the Balance Sheet.

However, despite these changes, the implementation of fiscal policy remained in its silo, with a superficial (at best) connection to economic or other policy objectives. Consequently, the fiscal policy intentions outlined in the December 2022 Budget Policy Statement indicate a net debt[16] ceiling of 30% of GDP. This ceiling was in line with the recommendation contained in the Treasury 2022 paper derived from arguably highly conservative assumptions.

Despite this measure being well below the stated ceiling there was a continued interpretation to reduce debt – with an expected decline from 21.4% to 14.1% of GDP over the forecast period to 14.1%. This conservative implementation of fiscal policy is further reinforced by the short-term intention to return to operating surplus and to further increase that surplus to 3.3% of GDP over the forecast period.

5.4.3 Latest incarnation

The incoming Government in late-2023 signalled a shift back to a net core Crown debt measure, as well as introducing a new operating balance indicator OBEGALx. Currently, fiscal policy intentions and objectives are stated in the 2024 Fiscal Strategy Report and updated by the 2025 Budget Policy Statement[17]. These, despite the nuances, signal a continuation of a narrow interpretation and application of the fiscal policy framework.

Reinforcing the arbitrariness, as well as narrowness, of the fiscal rules, it is notable that the current Government's fiscal stance is considerably harsher than advice from Treasury. In advice dated March 2024[18], Treasury noted

> ***"This report provides further advice on the debt objective within your fiscal strategy, following feedback from your office that you are considering changing the debt indicator to net core Crown debt, … and … that a 20 – 40% debt range based on net core Crown debt would be a more binding debt objective than recommended by the Treasury, and is more likely to create a tension between the fiscal strategy and a stable pipeline for capital investment…"***

Similar points are raised in a forthcoming article in the Policy Quarterly. Forward and Foreman[19] frame the narrowness as fiscal pessimism in the Public Finance Act, as well as in Treasury models. They point to the absence in calculations of debt and deficit targets of potential positive impacts on economic outcomes resulting from capital investments. This echoes earlier arguments in sub-section 3.2 on the distinction between financial resources and economic resources, and the lack of connection with economic objectives noted in sub-section 5.3.2.[20]

15 *The Treasury's analysis and recommendations for fiscal rules*, May 2022, https://www.treasury.govt.nz/publications/guide/treasurys-analysis-and-recommendations-fiscal-rules

16 This is a 'new' net debt measure that includes core Crown advances, Crown entity borrowings (excluding Kiwi Group), and the New Zealand Superannuation Fund. Note, the 30% of GDP ceiling for this measure of net debt is approximately equivalent to a ceiling of 50% of GDP for the current (2025) preferred measure being net core Crown debt.

17 As tabulated in the tables on page 30.

18 https://www.treasury.govt.nz/sites/default/files/2024-09/b24-t2024-604-4930474.pdf T2024/604.

19 Forward T. and Foreman M, *The fiscal constraint (working title)*, Policy Quarterly, 2025, (forthcoming).

20 Similar, related, and allied observations have been regularly made by a range of economic commentators; including: Hickey, B; Renney, C; and St John, S.

The latest Budget Policy Statement does include a proviso for the revenue objective to support "long-term productive economic growth". However, this is a redundant statement, given the earlier stated 'cap' on spending alongside the operating balance objective. Consequently, this objective, which would otherwise be significant from an economic perspective like the rule contained in the 2017 Budget Responsibility Rules, is rendered meaningless for similar reasons.

Fiscal Intentions from December 2024 BPS

The Government's short-term fiscal intentions for the next four financial years		
	Budget Policy Statement 2025	**Fiscal Strategy Report 2024**
Debt	Maintain total debt at prudent levels. Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent.	Maintain total debt at prudent levels. Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent.
Operating balance	Bring total operating expenses and total operating revenues into balance. Return the operating balance (before gains and losses, excluding ACC) to surplus by 2027/28. Ensure consistency with the short-term intention for debt.	Return the operating balance (before gains and losses) to surplus by 2027/28. Ensure consistency with the short-term intention for debt.
Expenses	Return the operating balance (before gains and losses) to surplus by 2027/28. Ensure consistency with the short-term intention for debt.	Return the operating balance (before gains and losses) to surplus by 2027/28. Ensure consistency with the short-term intention for debt.
Revenue	Ensure revenue is consistent with the operating balance intention.	Ensure revenue is consistent with the operating balance intention.
Net worth	Maintain net worth at around 40 per cent of GDP.	Maintain net worth at around 40 per cent of GDP.

Fiscal Objectives from the December 2024 BPS

The Government's long-term fiscal objectives for the next 15 financial years	
Debt	Maintain total debt at prudent levels. Once net core Crown debt is below 40 per cent of GDP, maintain it within a range of 20 per cent to 40 per cent of GDP, subject to economic shocks.
Operating balance	Maintain operating surpluses sufficient to ensure consistency with the debt objective. This will ensure that, on average, over a reasonable period of time, operating expenses are funded from operating revenues and not from debt.
Expenses	Control growth in government spending so that, over time, core Crown expenses reduce towards 30 per cent of GDP.
Revenue	Ensure the level of operating revenues is consistent with the operating balance objective and supports long-term productive economic growth.
Net worth	Ensure net worth remains at a level sufficient to act as a buffer to economic shocks.

6 Options for a broader approach

Despite the current framework, fiscal policy could still be applied to enable a broader perspective on objectives and a recognition of the economic and other policy contexts within which it should operate.

One option is to adopt a broader fiscal approach by providing clearer direction on both the interpretation and the application of the Public Finance Act, and section 26G in particular. Another option would be to rewrite the PFA to explicitly enable a clear connection between economic and fiscal concepts and objectives.

6.1 Broader approach within confines of PFA

An immediate broadening could be achieved by stating *total debt* to be more credibly and explicitly defined as net financial debt. In turn, *prudent levels* can be more credibly and explicitly defined as the net financial debt required to ensure the meeting of obligations to future generations in providing fit-for-purpose infrastructure, community, and other network assets.

Similarly, the principle of reducing total debt can be applied over an appropriate time horizon that is consistent with the above future obligations.

The application of such a broader interpretation of a total debt target would be assisted by a meaningful *revenue strategy*. In particular, in formulating a *revenue strategy* the circularity with spending and operating balance needs to be severed. This can be achieved by relating expected revenue required to (anticipated changes in) the demands for public services, along-side a relationship with the income and/or wealth re-distribution policy of government. This would:

- promote the efficiency and fairness criteria of section 26G(e) where:
  - efficiency requires resource reallocation to relative demand shifts towards (or away from) public services
  - fairness acknowledges that current tax rates as well as the current tax base may not well serve redistribution policy
- re-balance the current interpretation of 26G(e) that currently accepts a bias towards predictability and stability of tax rates and, by inference, the tax base.

Alongside this broader approach, short-term intentions and long-term objectives for government spending would need to move away from the arbitrary measure of core Crown expenditure. As noted earlier, the use of spending as a % of GDP as a measure is unsound from an economic perspective, given the presence of some categories of government spending that are not included in the measure of GDP. Consequently, intentions and objectives for government spending must separately recognise:

- changing (or growing) demands over time for the production of public goods and the delivery of public services
- an income and wealth redistribution policy of government
- obligations to future generations to maintain and/or build fit-for-purpose infrastructure, community, and other network assets.

6.2 Beyond the PFA

However, such a broad approach within the confines of the current framework remains disconnected from a robust and rigorous economic foundation. Fiscal policy and fiscal policy rules remain seen through a primarily financial lens. The implicit objective remains in ensuring financial markets are comfortable in providing continuing (but short-term) flows of transactions and financial capital. Economic objectives and societal and community aspirations (including those of future generations) remain peripheral and/or secondary to the primacy of fiscal policy.

6.2.1 Fiscal rules driven by economics not financials

Establishing an appropriate economic lens for fiscal policy requires fundamental discussions and agreement around a range of core concepts.

A critical question requiring assessment is: what is the objective of economic activity and the economy? This confronts head-on the implicit objective of increasing GDP, which carries the assumption that *more is better*. There are currently related secondary objectives around lifting productivity, alongside driving exports to improve the external trade and payments balance.

In confronting the objective of GDP growth, resource use and sustainability matters, as well as the desirable balance between consumption spending and investment effort cannot be avoided. Similarly, the relevance of non-market activity and social cohesion must also be considered in determining the objective, or outcomes, assigned to economic activity.

Alongside an overarching objective for economic activity, a recognition of the role/function of government (beyond responsible fiscal management) is required. Indeed, establishing an objective for government (that must be consistent with the objective for economic activity) is necessary. Consequently, a role that is currently primarily seen as reactive may need to acknowledge more of a proactive stance.

In this regard, there must be recognition of potentially different objectives for government spending given different categories of such expenditure. That is, government spending:

- can underpin the production of public goods and delivery of public services – classified under the consumption spending component of GDP measures
- can underpin activity maintaining, improving, and/or building infrastructure and other network assets – classified under the investment spending component of GDP measures
- can be undertaken to re-distribute income, wealth and/or productive resources between individuals and groups in the community

In addition to these different categories, there is a distinction between government spending as a producer, supplier, or provider of services; as opposed to spending where it takes the role as a funder for other entities to produce, supply, or provide.

Critically, from an economic perspective New Zealand's ongoing need for flows of foreign capital remains pre-eminent to any fiscal rule or rules. This is a reflection of New Zealand's external deficit and the consequent net external debt constraint on economic activity. This is also a reflection of the macroeconomic accounting identity between the nation's external debt, public sector debt and private sector debt.

Arguably, any objective for the New Zealand economy – and so any consequential set of fiscal rules – needs to tackle this constraint on future prosperity. The need for net inflows of foreign capital requires productive resources to go to sustainable foreign-exchange earning (ie. exporting), and/or foreign-exchange saving (ie. import-replacement), activities.

From an economic perspective such an objective would need to accompany a longer-term strategy to re-balance economic activities in order to tackle this constraint on prosperity. This raises the question of the time horizon for the achievement of fiscal rules. This would likely require a noticeably longer horizon than the relatively short economic (and/or political) cycle over which the current narrowly interpreted rules appear to be applied.

6.2.2 A credible objective to guide fiscal rules

An objective like, tackling the foreign exchange constraint through improving value from export activities has clearer connections to the economic challenges faced than current solely fiscal targets. However, it could be argued this just shifts fiscal policy from a fiscal targets silo to an economic targets silo.

While this may extract the fiscal framework from the circularity of fiscal rules with fiscal targets that are the fiscal rules themselves, a shift to an economic target avoids the core question of the objective of economic activity. Alternatively, if the fiscal framework is to provide guidance or rules for its parameters, there remains a need for an overarching objective to act as the, preferably external, performance indicator.

There are elements of the *Health for All* agenda that, arguably, could form an objective (with associated performance indicators or criteria) for economic activity. Such an approach would then require fiscal guidance or rules consistent with ensuring the achievement of such performance measures. As argued by the WHO, promotion of the mutual dependencies between a healthy population and economic progress is central. Placing *Health for All* in the context of an objective against which the performance of fiscal policy can be measured would rightly relegate responsible fiscal management to be the means to the end, rather than the end in itself.

More broadly, a *Health for All* agenda that is fit-for-purpose for Aotearoa in the 21st century may be better viewed as a component of a mutually agreed Social Floor. The International Labour Office (2012) described such a floor as

"nationally-defined sets of basic social security guarantees which secure protection … [and] ensure at a minimum … all in need have a access to essential health care and basic income security."

Further, the Productivity Commission (2023) argued

"the constraints on economic activity should be central to our economic decision making. … A right to a social floor sits alongside respecting planetary boundaries that recognise obligations to future generations."

While devising a set of components contributing to a social floor would undoubtedly be a challenging task, placing the *Health for All* agenda as one component of a social floor would no doubt provide a positive rationale for economic activity. Fiscal rules should act to guide the implementation of fiscal policy and ensure economic activity prospers within the constraints reflected by the social floor and planetary boundaries.

7 Concluding comments

Health for all – a policy objective for the 21st century Aotearoa? But what of the fiscal rules which underpin all policy?

- fiscal policy rules can be viewed as a hindrance to achieving equitable health outcomes
- but the rules can also be malleable to assist in achieving specified outcomes
- the application and interpretation of rules within the existing framework requires a clear statement of desired outcomes and an understanding of which fiscal parameters are best deployed in the pursuit of such outcomes
- over the longer term, a fiscal policy framework should be subservient to economic objectives alongside broader national aspirations of its people and communities.

The current framework – delineated by sections 26G and 26J of the PFA – derives from an innate mistrust of government and a desire to limit its role and function in the economic activity. For some, this desire is justified by a philosophical view that the private sector provision of goods and services is fundamentally better[21] than that of the public sector. For others, constraining the size of government comes from a view that governments should only intervene in economic activity in the limited cases where market failure is clearly proven. Consequently, the rules arising from this framework ensure/imply:

- Fiscal policy is operated separately – effectively in its own silo – from other policies:
    - the primacy of fiscal policy objectives is established to be above all other social and/or economic policy objectives
    - consequences arising from the implementation of fiscal policy across other policy objectives are secondary
- Financial considerations are separate from (and take primacy over) economic considerations:
    - there is no clear or direct link to real (resource) economics
    - the needs of, or constraints imposed by, real productive resources - including physical machinery, equipment, buildings, knowledge, matauranga, experiences, connection, workforce skills and capabilities, water, energy, and eco-systems – all remain secondary to financial rules
- Government spending (whether for service delivery or for infrastructure development) is viewed primarily as financial costs, with little (if any) weighting for benefits that may accrue from such expenditure:
    - there is little acknowledgement of the economic benefits arising from spending on maintaining, improving, and/or adding to real productive resources of the nation
    - there is little acknowledgement of the opportunity cost of the erosion, or loss, of real productive resources through the insufficient spending

21 The word "better" is a catch-all generality, and may include productivity and efficiency considerations, as well as arguments that tax revenues flowing to government represent theft from individuals and so need to be curtailed.

- Outside of fiscal policy objectives there are no stated links to economic objectives, let alone community, social, or national development objectives:
    - long-term objectives are required for a range of fiscal measures, but there is a stark absence of any connection to the desired outcomes that these objectives are supposed to achieve
    - economic outcomes – for example, export revenues and current account (external trade) deficit; good jobs, incomes, and unemployment numbers; productivity and wellbeing – do not directly form part of the fiscal framework
    - community, social, or national development objectives – for example, climate change mitigation and adaptation; resilience to natural disasters and disruptions from external (global) trade or geo-political shocks; equitable access and distribution to opportunities across current and future generations – are noticeably absent from consideration.

Were *Health for All* adopted as a policy objective for 21st century Aotearoa, there would need to be considerable shifts in the interpretation of the current fiscal policy framework and the application of consequently revised fiscal policy rules.

Nevertheless, such considerable shifts and revised rules need not (and would not) contravene the principles of responsible fiscal management. But they could provide improved rules, fit-for-purpose for the challenges facing 21st century Aotearoa.

8 Glossary and abbreviations

aggregate demand	A measure of total demand for goods and services. The demand emanates from the public and the private sector, as well as from foreign customers.
APEC	Asia-Pacific Economic Council
ASEAN	Association of South-East Asian Nations
ASMS	Association of Specialist Medical Staff Toi Mata Hauora
automatic fiscal stabilisers	Elements of government revenue and spending that adjust across the economic cycle. At positions of above-trend growth, tax revenue increases while spending on benefit transfers declines, thereby increasing the operating balance while also reducing aggregate demand. At positions of below-trend growth, the operating balance declines (deficit increases) as tax revenue declines and spending on benefit transfers increase. These adjustments occur automatically, unless explicit policy changes are made.
BPS	Budget Policy Statement
budget balance	The difference between total revenue and total spending. *see also operating balance*
consumption	The component of aggregate demand (from both the public and the private sectors) that is devoted to satisfying the current period requirements for goods and services. For example, the delivery of radiotherapy treatments and vaccination programs. *Contrast with investment.*
cyclically-adjusted balance	The operating balance adjusted for the current position of the economic cycle; essentially by removing the impact of the automatic fiscal stabilisers.
contractionary fiscal policy ***aka restrictive fiscal policy***	Government policy designed to have a negative impact on aggregate demand, and so potentially reduce (or constrain)
downturn ***aka downswing***	Where economic growth is lower than that recorded in previous period(s). Sometimes associated with difficulties in fully occupying labour and other productive resources, as lacklustre aggregate demand does not require the full capacity and capabilities of available productive resources. Where growth becomes negative (rather than just less positive) a downturn can become a recession.
economic cycle	Refers to whereabouts the level of economic activity (ie. GDP output) in the current period is relative to the level of potential GDP. Can also refer to economic growth in the current period in relation to trend growth. *see also downturn, upturn*

economic growth ***aka growth; GDP growth***	The GDP recorded in one period of time compared to the GDP in a previous period of time. Usually expressed as GDP in one year compared to the GDP achieved in the previous year. Positive growth over the year represents an economy producing and delivering more output this year than it did the previous year.
growth in GDP is de facto	seen as the economic objective – underpinned by an implicit assumption that *more outputs lead to higher living standards*. This measure is silent on any deterioration of productive resources that are utilised in producing and delivering goods and services. Hence, some highlight the importance of investment (see below) when viewing from a longer-term (or sustainability) lens.
economic resilience	The ability of economic activity to actively respond to and thereafter restore its position in the economic cycle and its associated utilisation of productive resources following a sudden, unexpected shock or surprise event. Relates to the capabilities, capacity and adaptability of the nation's productive resources. For example, surprise shocks include climate or natural events, or global/political stresses impacting international trade partners.
EU	European Union
expansionary fiscal policy	Government policy designed to have a positive impact on aggregate demand, and so potentially increase (or boost) economic growth.
exports	The component of aggregate demand that arises from foreign customers wishing to purchase New Zealand produced and delivered goods and services.
external deficit	In simple terms, the difference between the nation's revenue from export sales and the nation's payments for imported items and interest payments on previous period's external debt. Also includes the net flow abroad of dividends and profits accrued by foreign entities operating in New Zealand. Variants of this measure may also include valuation changes on assets and liabilities, and other technical adjustments.
external debt ***aka foreign debt; overseas debt***	The outstanding borrowing of all New Zealand entities (both the public and the private sector), accumulated by external deficits over previous periods. The corresponding financial assets are held (by definition) externally by foreign entities.
fiscal buffer ***aka rainy-day fund***	An informal 'nest-egg' to protect the ability of the government's future revenue and spending projections to cope with sudden, surprise, or unexpected shocks or events. The previous EQC fund fulfilled some of this purpose. Is now seen more in terms of the ability of government to access financial markets and borrow sufficient funds in the face of such events. Is sometimes argued as improving the resilience of the government's finances. However, such *financial* resilience should not be conflated with the broader requirements for *economic* resilience.
fiscal impulse	The impact on aggregate demand arising from government revenue and spending decisions. A positive impact represents an increase in demand from the public sector by more than the reductions in private sector demands.

fiscal policy	Refers to decisions made by government in relation to (changes in) government revenue (primarily tax) and government spending. Is restricted to central government activities only. Active changes in revenue and spending decisions (or policy settings) may be in response to social and/or economic objectives. Sometimes called upon to moderate the economic cycle (noting the potential impact of decisions on aggregate demand) by cushioning potential downturns and restraining potential upturns. However, the presence of automatic fiscal stabilisers also acts to perform some of this moderating task.
fiscal rules	A set of statements purporting to guide the development and implementation of fiscal policy to ensure certain objectives. Objectives may be explicit or implicit. Implicit objectives may be couched in terms of responsibility or sustainability criteria. Explicit objectives can include operating balance and government debt targets, over the short and/or the longer term.
GDP	A measure of the quantity (or output) of goods produced and services delivered over a period of time of an economy. Is restricted to goods and services obtained through monetary transactions. Does not include the outputs of voluntary or unpaid work. Is seen by many as a proxy for the size of an economy. *see also real GDP, nominal GDP*
government debt	The outstanding borrowing of government accumulated by fiscal deficits over previous periods. The corresponding financial assets can be held internally (the private sector) or externally (by foreign entities). *see also gross debt, net debt*
government revenue	Includes central government revenue from income tax, GST, corporate tax, other taxes (eg. alcohol duties) and other revenue (eg. licence fees, dividends from govt owned corporates, and interest earned from previous government financial assets).
government spending	Includes spending by central government to purchase goods (eg. medications) and to deliver health services (eg. hip replacement operations); as well as spending to redistribute income to individuals, whānau, and families receiving little or no market income (eg. Jobseeker benefit). Also includes interest costs on previous period's government debt.
gross debt	The total of all borrowing that has occurred and has yet to be repaid.
IMF	International Monetary Fund
imports	The component of aggregate demand (from both the public and private sectors) that is met by the purchase of overseas produced and delivered goods and services.
investment	The component of aggregate demand (from both the public and the private sectors) that is devoted to the maintenance, replacement, improvement, and/or enhancement of elements of the productive resources of a nation. Required to ensure that resources are available to meet demands for future consumption. For example, the construction of operating theatres and health service hubs. *Contrast with consumption.*
monetary policy	Refers to decisions made by the Reserve Bank to influence interest rates. Is primarily required to achieve inflation targets. These targets are achieved through the moderation of the economic cycle by cushioning potential downturns and restraining potential upturns. Sometimes combined with calls for fiscal policy to act in unison with monetary policy.

NAFTA	North American Free Trade Agreement
net debt	Is equal to gross debt minus any offsetting financial assets (eg. lending to others).
net worth ***aka net assets***	Is equal to total assets minus total liabilities. In particular, differs from net debt in that it also includes non-financial assets (eg. property, other physical infrastructures, equipment).
nominal GDP	A measure of the GDP of an economy but valued in the current prices of the current period. Comparisons of the level of nominal GDP over different periods include the effects of price changes over time. Therefore, nominal GDP is not a robust measure of the quantity (or output) of goods produced and services delivered by an economy. *see also GDP, real GDP*
OBEGAL	Operating Balance Excluding Gains and Losses – where gains and losses arising from movements in the market value of assets are removed. Recently, the preferred measure of the operating balance has been modified to be OBEGALx, which removes the operations of ACC from the measure. *see operating balance*
OECD	Organisation for Economic Co-operation and Development
operating balance ***aka fiscal surplus, fiscal deficit***	In simple terms, the difference between government revenue and government spending. Variants include or exclude specific items of spending (or revenue), depending on the nature of the preferred measure or analysis. A positive balance (revenue greater than spending) is termed a surplus. *see also primary balance, cyclically-adjusted balance, structural balance, and OBEGAL*
PFA	Public Finance Act 1989
potential GDP ***aka aggregate supply***	A measure of the quantity (or output) that an economy could achieve in terms of goods produced and services delivered in the current period given the full utilisation of all productive resources.
primary balance	The difference between government revenue and government spending excluding interest payments.
private sector	Comprises all non-government domestic agencies, businesses, enterprises, and institutions. Includes households, iwi/Māori whānau and hapū incorporations and trusts, corporates and non-corporates, self-employed entities, not-for-profit and for-purpose organisations.
productive resources ***aka inputs***	Factors enabling the production of goods and services in the economy. Includes workforce skills, knowledge, experiences and capability; buildings, built infrastructure and associated network facilities; machinery and equipment; land, water and waterways, other natural ecosystems.
productivity	A measure of the ratio of outputs produced and delivered (GDP) divided by the productive resources (inputs) used. Usually measured in terms of GDP per hour worked, which is more correctly termed *labour productivity*.
productivity growth	The level of productivity in one period compared to the level of productivity in a previous period. An improvement in productivity (over time) being represented as positive productivity growth.

public sector ***aka government sector***	Comprises agencies, businesses, enterprises and institutions owned and operated by central and/or local government.
real GDP	A measure of the GDP of an economy but valued in the constant prices of a base period. This enables comparisons of the level of GDP over different periods excluding the effects of price changes over time. Therefore, this is a better measure of the quantity (or output) of goods produced and services delivered by an economy. *see also GDP, nominal GDP*
recession	When economic growth is negative, i.e. GDP in a period(s) is less than GDP in the previous period(s). Usually focussed on short-term quarterly measures of GDP, with two consecutive quarters of negative economic growth sometimes termed an 'official recession'. Usually associated with rising labour unemployment and idle productive resources, as aggregate demand is insufficient to occupy the full capacity and capabilities of available productive resources.
structural balance	Similar to cyclically-adjusted balance, excluding any one-off items (eg. COVID-related wage subsidy spending)
trend growth	The long-term average rate of economic growth, consistent with the long-term capacity and capabilities of productive resources to be fully utilised.
upturn ***aka upswing***	Where economic growth is higher than that recorded in previous period(s). Sometimes associated with price inflation as labour and other productive resources are stretched up to (and beyond) their full capabilities and capacity to deliver and satisfy the aggregate demand that is present. Where prolonged, an upturn may be termed as an economic boom.
WHO	World Health Organisation
WTO	World Trade Organisation

9 References

Forward, T and Foreman, M, *The fiscal constraint (working title)*, Policy Quarterly, 2025 (forthcoming).

Hickey, B, https://thekaka.substack.com/.

International Labour Office, *The strategy of the International Labour Organization. Social security for all: Building social protection floors and comprehensive social security systems*, www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_secsoc_34188.pdf, 2012

International Monetary Fund, *Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries*, 2013.

Mazzucato, M, *Mission Economy: A Moonshot Guide to Changing Capitalism*, Allen Lane, 2021.

NZ Debt Management Office, *New Zealand Government Securities Overview 2024-2025*, https://debtmanagement.treasury.govt.nz/investor-resources/economic-overview, July 2024.

NZ Treasury, *Updating the methodologies for the cyclically-adjusted balance, structural balance, and fiscal impulse*, https://treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse, December 2021.

NZ Treasury, The Treasury's analysis and recommendations for fiscal rules, https://www.treasury.govt.nz/publications/guide/treasurys-analysis-and-recommendations-fiscal-rules, May 2022.

NZ Treasury, *Further advice on the debt objective for your fiscal strategy*, https://www.treasury.govt.nz/sites/default/files/2024-09/b24-t2024-604-4930474.pdf T2024/604, March 2024.

NZ Government, *Budget Policy Statement 2025*, https://budget.govt.nz/budget/2025/bps/, December 2024.

New Zealand Productivity Commission, *A fair chance for all: Breaking the cycle of persistent disadvantage*, June 2023.

New Zealand Productivity Commission, *Improving economic resilience*, February 2024.

Raworth, K, *Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist*, Cornerstone, 2018.

Renney, C, https://craigrenney.substack.com/.

St John, S, https://susanstjohn.substack.com/.

Trebeck, K and Williams J, *The Economics of Arrival: Ideas for a Grown-Up Economy*, Policy Press, 2019.

Waitangi Tribunal, *Hauora: Report on Stage One of the Health Services and Outcomes Kaupapa Inquiry WAI 2575*, https://forms.justice.govt.nz/search/Documents/WT/wt_DOC_195476216/Hauora%202023%20W.pdf, 2023.

World Health Organisation, *Health for All – transforming economies to deliver what matters: final report of the WHO Council on the Economics of Health for All*, 2023.

10 Appendix: Evolution of fiscal policy frameworks and rules

Despite the differing contexts within which fiscal policy frameworks rules have evolved over time and across various economies, there have been several common themes.

10.1 Economic context

As noted in this paper, the 1980s saw a move towards more market-oriented economic policy around the globe alongside a curtailment of the role and function of government in economic activity. In essence, government activity and involvement was minimised to ensure the satisfactory operation of markets and the provision of minimum safety nets to avoid object poverty.

The use of fiscal policy to manage inflation, unemployment, or other aspects of the economic cycle was actively discouraged. This discouragement was through a combination of explicit legislation, political pressure, and/or influence from international institutions like the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the World Bank.

The inflationary experiences of the 1970s enabled controls over the issuing of currency and credit to be given to (arguably) independent central banks. Central banks operated under a devolved mandate that targeted stability in the level of prices, either through manipulation of interest rates and/or controls on the issuing of currency and credit.

The breakdown, in the late-1960s, of the Bretton Woods agreement that oversaw the global trade payments system eventually led to a range of floating exchange rate mechanisms for most major currencies. This coincided with moves to freer financial capital movements, seeing financial capital moving swiftly across international borders in response to changes in (risk-adjusted) returns. International capital mobility assisted the growing importance of financial sectors in most economies.

In a similar vein, global trade barriers were relaxed across a range of goods. Multi-lateral trade groupings and agreements were advanced (e.g. EU, APEC, NAFTA, ASEAN) and the role of the World Trade Organisation (WTO) became increasingly prominent. This assisted in the development of globally integrated supply chains with the inclusion of new markets like China, India, South Korea, Taiwan, and other Southeast Asian nations into the global trade environment.

Increased financial and trade integration across the globe saw a growing synchronisation of economic cycles. Domestic interest rates and share prices also came to move in a broadly similar fashion across the globe. However, domestic interest rate changes (the primary tool of monetary policy) were required in response potential inflationary and other external shocks.

Within this context, fiscal policy became effectively restricted to a focus on the balance between government's revenue and spending and the government's ability to borrow any requisite deficit. The consequential government debt is subject to global market interest rates, enforcing further discipline on the fiscal accounts.

As a result, the policy framework for the management of the economic cycle (as opposed to solely inflation control) saw, de facto, fiscal policy take a back seat and monetary policy taking centre stage.

However, the experiences of Europe and the United States have reinforced that interaction between fiscal policy and monetary policy cannot be avoided and arbitrarily limiting the role of fiscal policy will likely have unintended economic consequences.

10.1.1 Europe

The European development of fiscal rules has been strongly influenced by the evolution of the European Union. The originating post-WWII effort focussed on the reduction of barriers to trade amongst its members. This was followed by encouraging the movement of people and labour between its members, to a co-ordinated monetary union, and eventually to the institution of a common currency.

There was recognition that the fiscal position of member countries would – if they significantly diverged from each other – potentially have economic consequences in the form of cross-border movements of labour, resources and financial capital. Such cross-border movements may be both unsustainable as well as foster economic and political instability. These outcomes could potentially undermine the dream of a unified Europe.

Consequently, the Maastricht Treaty of 1992 attempted to further consolidate (and synchronise) the economies of the member states by recognising four convergence criteria:

- budgetary positions where government deficits of greater than 3% of GDP and government gross debt of greater than 60% of GDP were to be avoided
- low nominal long-term interest rates
- low inflation
- low exchange rate volatility

Achievement of these criteria would greatly assist the institution of a common currency. On creation of the *Euro* common currency in 1999, the European Central Bank took charge of monetary policy for the EU in conjunction with its price stability mandate – currently 2% inflation target.

Alongside these considerations was the situation of Germany, whose population remained scarred by memory of the inflation experience of the 1930s. This led to the early institution of an independent central bank (Deutsche Bundesbank) soon after WWII, and an inherent allergy to any potential inflationary policies.

The need for debt to re-build east-Germany post-unification saw German government debt grow. As a result, the German government amended its Constitution to include a “debt brake” or “debt lock” – where government structural deficits were to be below 0.5% of GDP – notably more stringent than the EU convergence criteria. Also notably, this debt lock has recently been “suspended” to facilitate increased defence spending.

10.1.2 United States of America

Unlike the economic imperatives facing Europe in its post-WWII rebuild, the US situation already had a federally unified monetary system – with the Federal Reserve implementing its monetary policy mandate given by the US Congress to promote maximum employment and price stability. In addition, the US already had a relative aversion to government involvement in economic activity.

The interaction with US fiscal policy, though, is unique given the status of the US currency as the de facto global reserve currency. The issue of US government debt (the supply of US government bonds) have consequences for both global and national economies alike. In essence, the supply of US government bonds facilitates international capital mobility. Surprise changes in the supply of bonds (the issuing of debt) should be avoided, with such changes well signalled. However, for such bonds to serve this purpose, they should not be degraded in value through inflation. This raises the connection to monetary policy.

With inflation already controlled by monetary policy, some form of fiscal constraint in the US has been regularly promoted. The desire for well-signalled fiscal policy (along with a range of other considerations) resulted in the instigation of a debt ceiling – limiting the total amount that the federal government can borrow. However, the interaction with global financial markets cannot be avoided. In addition, on-going and murky political considerations have effectively rendered the debt ceiling inert, as last-minute relaxations have always been delivered.

10.2 Social and demographic context

The past 30 years have seen a large increase in global integration, as supply chains, financial capital, people, and technological advances have been shared across all corners of the world. Relative and absolute reductions in numbers in abject poverty have resulted in many parts of the world.

Promisingly, the lower-middle strata of societies across China, India, and several East Asian nations have increased in numbers as many of the formerly rural poor have migrated to manufacturing centres and cities. Communication technology advances have assisted in this integration. The supply of low-cost clothing, manufactured, and technology products have benefitted many consumers in most developed economies.

Despite these advances, disparities between the privileged and the poor have become entrenched and, in places, have widened.

While central bank management of economic cycles has indeed controlled price inflation of consumer goods and services, there has been considerable inflation of asset (land, housing, property, shares) prices. This has provided gains to those with existing wealth in terms of increasing the financial value of that wealth. Conversely, those with minimal or no existing wealth were faced with increasing difficulty in attempts to acquire wealth.

Longer-term demographic changes have seen fundamental changes in demands for social services such as health and education. Transformations and advancements in surgery, medicines, expertise, and knowledge, alongside growing expectations as to the availability of health interventions, have seen projections for public spending on health balloon. Increased participation (and expectations of participation) in formal education – in both early-childhood and tertiary sectors – have heightened demands for resources in the education sector. Demographic changes in populations across both age and ethnicity dimensions have added to the concerns about the “fiscal affordability” of meeting such demands.

In addition, the depths and regularity of recurring global economic disruptions[22], with the origin being financial markets, has reflected the limits of an economic policy framework reliant solely on monetary policy responses. Notably, there has been the development of additional tools for monetary policy[23] (beyond the interest rate lever) in response to stalling economic growth in the post-GFC era. The need for fiscal policy co-ordination with monetary policy has also been entertained, in developments that now call into question the 1980s consensus of a limited role for fiscal policy.

22 For example: the 1987 share market crash; the 1997 Asian financial crisis; the 1999 “dot.com bubble”; the 2008 Global Financial Crisis (GFC).

23 Including, for example, negative nominal interest rates, as well as so-called quantitative easing.

Adaptation and mitigation to climate change, alongside demands for further investments in building economic resilience have also contributed to growing calls for a more active, or indeed pro-active, role for government in economic policy formulation.

The limitations of monetary policy in the face of these longer-term climate, equity, demographic, and economic challenges requires a re-think of the limitations placed on fiscal policy by the 1980s consensus.

ASMS

TOI MATA HAUORA