Geoff Bertram

Fiscal Irresponsibility and Non-accountability

Abstract

This is a critical review of the so-called 'principles of fiscal responsibility' first legislated in 1994 and currently forming section 26G of the Public Finance Act 1989. The article argues that the term 'responsibility' has been wrongly applied to what is actually a prescription for fiscal austerity based on philosophically contested premises. Undue deference to that prescription has tied the hands of successive New Zealand governments, with negative consequences for the nation's infrastructure and the population's wellbeing.

Keywords fiscal policy, austerity, wellbeing, debt limit, accrual accounting, neoliberalism

Ruth Richardson's Fiscal Responsibility Act 1994 enshrined into New Zealand law a statement of 'principles of responsible fiscal management', which later (with some additions) became section 26G of the Public Finance Act 1989.[1] Those alleged principles remain on the statute book three decades later, and have played a central role in shrinking the scope and (I would argue) reducing the quality of government expenditure and taxation. Boston and Pallot's comment that 'the budget – and in particular, fiscal considerations – tended to drive the government's policy strategy, rather than [the other way round]' has rung increasingly true as so-called 'principles' have become an effective 'commitment device', leading to self-imposed fiscal straitjackets for both Labour and National governments (Boston and Pallot, 1997, p.384; Boston, 2017, ch.8; Gill, 2018). So, a great deal hinges on the statutory definitions of 'responsibility' in the Fiscal Responsibility Act and the Public Finance Act.

At the start it is worth asking some basic questions. What do we mean by 'responsibility'? Why is keeping debt and spending in check a good idea, and how much restraint is really sensible? What is the meaning of the word 'prudent' when applied to debt levels and management of fiscal risks? What is the case for requiring permanent balance in the operating budget? Why should 'government net worth' be a central concern of fiscal policy? Why do 'efficiency and fairness' include keeping tax rates 'stable'? These are important questions, which go to the heart of the neoliberal experiment into which the New Zealand economy, and the New Zealand government, were plunged in the 1980s and 1990s.

Geoff Bertram is Visiting Scholar in the School of History, Philosophy, Political Science and International Relations at Victoria University of Wellington. He was previously a Senior Associate of the Institute for Governance and Policy Studies, and before that a Senior Lecturer in the School of Economics and Finance.

The neoliberal world view regards government itself as inherently unproductive, and taxation as a burden on the private sector, which is considered the only productive part of the economy. It follows that both taxation and the scope of government are to be restricted as much as possible. To keep government in check, four policy devices are commonly deployed.

The first device is simply to place an arbitrary numerical limit on the size of government spending, usually set as a percentage of GDP. The other three devices comprise the strategy of 'starving the beast' (Friedman, 2003; Niskanen, 2006): tax cuts, which restrain the ability of government to fund expenditures from current revenues; debt limits, which restrain the ability of government to fund expenditure from future revenues; and insistence on 'full funding', which blocks government from funding any of its expenditure by money creation. The government is then forced to attempt to run a balanced (or surplus) operating budget, and is blocked from paying for increased spending unless it can either borrow from the private sector without breaching its debt limit, or raise taxes. Tax increases to relax the straightjacket are, of course, vigorously opposed and politically fraught.

All these restrictions must, nevertheless, be self-inflicted by government on itself. In a democracy, this implies that the voting population must be persuaded that low taxes, small government and tight fiscal constraints are the best way to pursue general wellbeing. It is one of the ironies of contemporary politics that fiscal austerity has become popular with both the public and the media despite its negative consequences for stability and wellbeing when applied in the wrong macroeconomic circumstances (Wren-Lewis, 2018; Blyth, 2013).

The story often told to justify this position is that government is just another small player within the overall economy, akin to a firm or household, so that 'good housekeeping' rules can be applied to government without hurting the wider economy. Consistent with this, the Public Finance Act changed the way the New Zealand government accounts were presented. Central to this was the adoption of an accrual approach in place of the

Before 1984, New Zealand governments and voters held a radically different view of the nature and role of government, the sensible limits on its size, and the ways in which government spending could be funded ...

traditional cash-based accounts focused on the old budget table 2 (Newbery, 2020; Dalziel and Lattimore, 1996, pp.50–1; Gibbons, 2017, p.57). From the point of view of neoliberal proponents, this was an unequivocal advance, because they saw government as no more than a large firm or household – an entity whose net worth and balance-sheet structure could be measured and changed without any impact on the economy at large. When the government ran a surplus, this could be equated with a gain in the wealth of the economy as a whole: government saving, and hence net worth, could, in this view, be increased without any countervailing reduction in private sector saving. Several of the key insights of Keynesian macroeconomics were thereby jettisoned, and an ideology of 'responsible fiscal management', based on the false analogy with a microeconomic unit such as a firm or household, was enthroned.

Before 1984, New Zealand governments and voters held a radically different view of the nature and role of government, the sensible limits on its size, and the ways in which government spending could be funded (Bertram, 1997; McAloon, 2013, ch.1; Rose, 2019, 2021; Buckle and Snively, 1979). Far from being just like a firm or household, balancing its budget with no wider economic impacts on society at large, the government was seen as playing a crucial role in providing a wide range of essential and desirable services (including transferring income and wealth from rich to poor), while steering the economy as a whole towards full employment. The constraints within which that activist role was pursued were twofold: the willingness of the voting population to agree on the scale of government services and transfers; and the productive capacity of the New Zealand economy to sustain full employment within a balance of payments constraint.

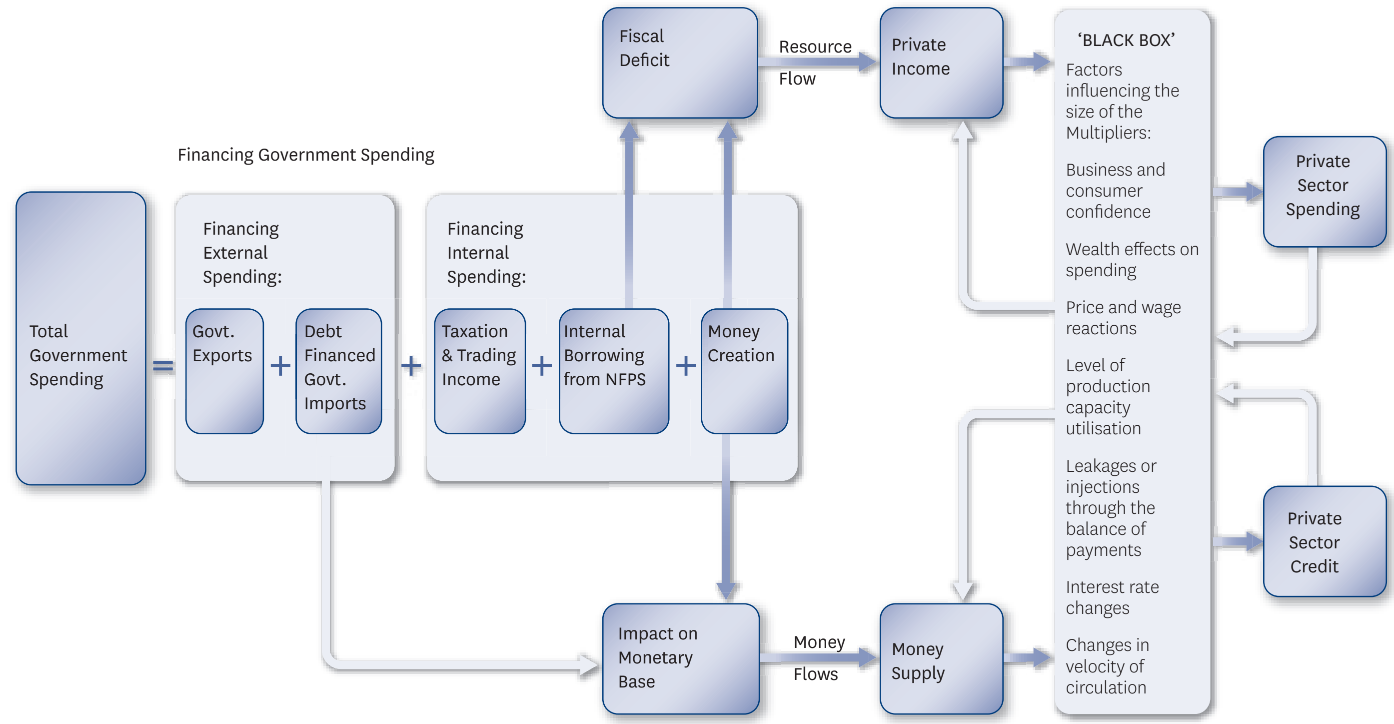
In that pre-neoliberal, Keynesian era, what policymakers aimed most to balance was the country's demand for imports relative to what the export sectors could earn. The size of the government within the economy was determined not by any arbitrary rule, but by the level of democratically agreed need for what government could and should provide. It was well understood that changes in government spending and in the way it was funded would have economy-wide (macroeconomic) effects. The government expected to break even over the long run, but was not aiming at the sort of targets that drive private business – profit, net worth and so on.

As for the funding of government, the pre-1984 position was that money creation (borrowing from the Reserve Bank, within sensible limits) ranked along with tax revenue, trading income, and borrowing from the non-bank private sector as a source of funding for internal spending. See, for example, Figure 1, drawn from Buckle and Snively (1979).

Central to the pre-1984 story was the proposition that democracy worked, in the sense of keeping government honest and trustworthy. Government was expected to exercise sound judgement in its policy settings, and public debate focused on whether particular policy decisions were sensible, not on whether any arbitrary rules were being broken.

It is certainly the case that by the 1970s, cracks were appearing in the post-war economic model (McAloon, 2013; Easton, 2020, Chapter 4; Bertram, 2009), and the

Figure 1: The initial budget impact on aggregate demand and the money supply



Note: These flows indicate the direction of initial impact of budget transactions on private income, the money stock and aggregate spending. The eventual effect on aggregate demand and the money stock will depend on the income and money multipliers which, in turn, will depend on a number of factors, some of which are listed in the 'Black Box'. There will, of course, be second round effects whereby economic activity will affect the size of multipliers and also budget transactions

Source: Reconstruction of chart 5 from Buckle and Snively 1979, p.16.

government was under pressure to address a number of looming issues, including the fiscal sustainability of the 'post-war consensus'. A first set of (largely unsuccessful) initiatives to meet this challenge were undertaken by the Muldoon government of 1975–84 (Gould, 1985; Boshier, 2022; Easton, 1997, p.235). An extremist reaction against Muldoon (what Easton (p.237) has described as 'a coup within the establishment') then brought the ascendancy of neoliberal ideas developed within Treasury and the Reserve Bank of New Zealand, which came to include the doctrines of 'constitutional political economy' developed in Brennan and Buchanan (1986) (for background, see MacLean, 2017). The most solid argument in favour of both Muldoon's policies and those of the neoliberal Labour and National regimes that followed is that both were introduced and implemented by democratically elected governments. The central argument from proponents of the neoliberal ideas – that there were no alternative solutions to the economy's problems – was never compelling (see Easton, 1997, chs 15 and 16; Bertram, 1993). But, for better or worse, their legacy remains a fact of life in New Zealand policymaking today.

The change from relying on discretionary decision making to demanding rigid adherence to rules or principles was central to the neoliberal transformation of economic policy, along with the adoption of the view of government as an entity aiming to maximise shareholder (taxpayer) net worth by running surpluses. Both of these propositions, derived from constitutional political economy, ran directly counter to what had previously been two central tenets of mainstream economic thinking:

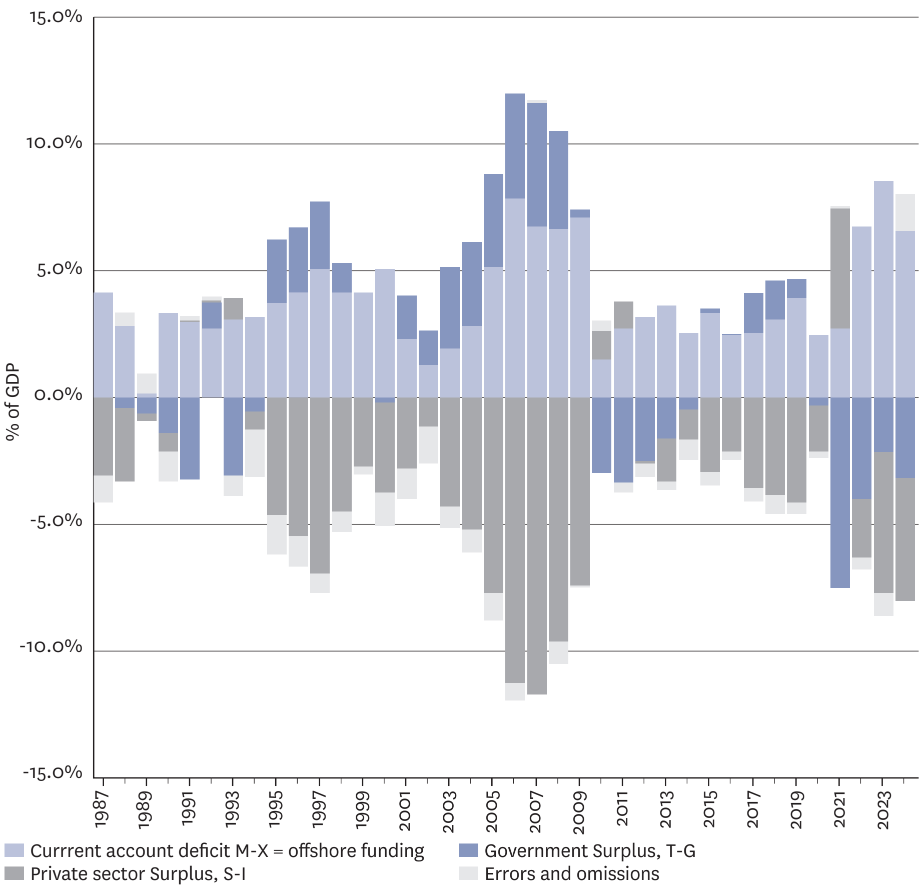
- Because government makes up a large proportion of the aggregate economy, it cannot be analysed using the *ceteris paribus* assumptions that work for microeconomics, because 'other things' do not 'remain equal' when the government changes its policy settings. There are large macroeconomic externalities flowing from the government's taxing and spending activities, which cannot just be ignored when evaluating the fiscal stance. At a full-employment level of aggregate activity in a closed economy, an expansion of government real spending (in the sense of exercising increased command over scarce resources) must displace ('crowd out') some private sector activity, because resources will be diverted from private to public use. In an open economy, besides domestic crowding-out there will be some spillover of increased aggregate demand into an increased balance-of-payments current account deficit. At a level of aggregate activity below full employment, an expansion of government spending can (in principle at least) bring unutilised resources into productive use and so can increase aggregate output and (potentially at least) welfare. Whether at or below full employment, for a given balance-of-payments position an increase in government savings must be matched by a reduction in private savings: only if increasing government savings goes along with a strengthening in the balance of payments can private savings increase or stay constant when fiscal policy tightens. These relationships are shown in Figure 2, where the three sector balances always add up to zero (with allowance for statistical errors and omissions). The list of 'other things not being equal' can be extended, but these are the most important.

- As Adam Smith noted (in *Wealth of Nations*, book IV, chapter ix), one of the key 'duties of the sovereign' is to undertake socially useful projects that would not be privately profitable; in other words, to provide services that do not return a commercial rate of profit (make a loss from an accrual point of view), but that have large positive external effects which are desirable for the wellbeing of the collective citizenry. Because providing these wellbeing-enhancing services at the socially efficient level will make losses, doing so will tend to weaken rather than strengthen the government's balance sheet. Aiming for increases in the government's net worth will mean providing essential services at less than the optimal level, forgoing the social wellbeing gains attainable from greater collective provision of such services. Far from being obviously a good thing, rising government net worth may be a signal of failure to perform one of the key functions of government itself.

The accrual accounting approach in the Public Finance Act effectively sets aside those old insights, treating taxpayers as akin to investors in a commercial venture, and rejecting both the external macroeconomic effects of government spending, taxing and saving behaviour, and the external microeconomic benefits that flow from providing essential public services at prices set below their commercially defined 'cost'. In summary:

- falling government debt appears as an unqualified positive outcome in the accrual world view, whereas in the real world it is often symptomatic of (and a contributor to) rising private sector indebtedness;
- rising government net worth is touted as an unqualified positive outcome in the accrual approach, whereas from a wellbeing perspective it is potentially a symptom of under-provision for social need.

Figure 2: Funding of sectoral balances 1987-2024



Source: Infoshare, author's calculations.

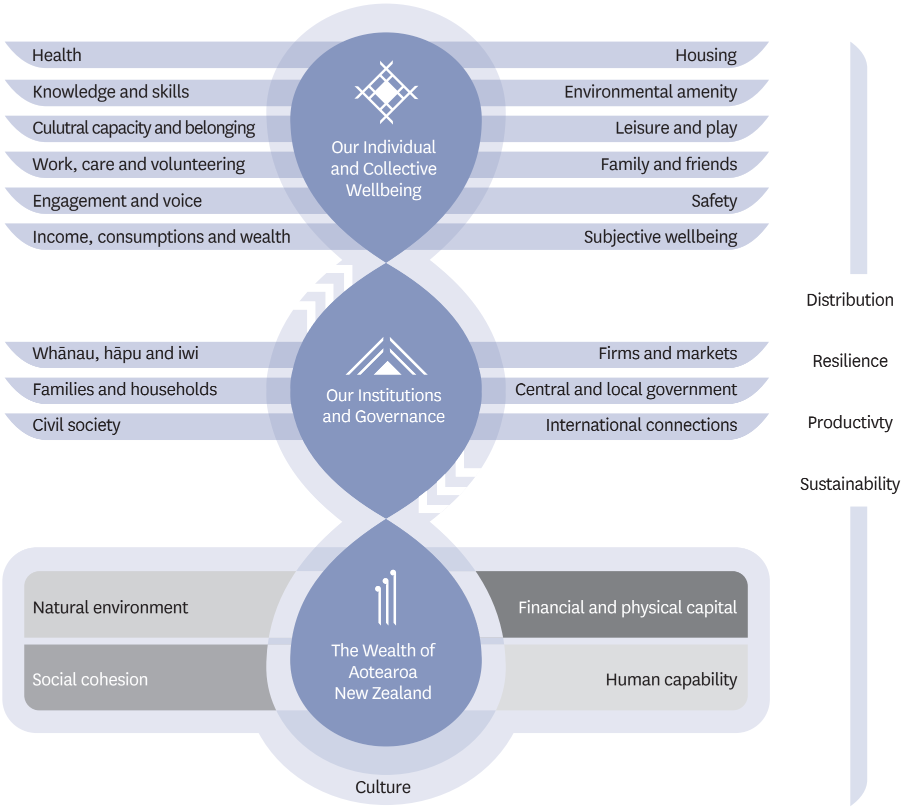
'Responsibility'

The process of wedding accrual accounting to a formally legislated conception of 'fiscal responsibility' was undertaken in 1994 by Ruth Richardson, a former minister of finance who was then chairing Parliament's Finance and Expenditure Committee. The original proposal was simply to drive greater transparency and tighter discipline into the reporting obligations of the minister of finance, but in select committee the bill was 'hijacked' (Michael Cullen's description at the time[2] – Cullen was then opposition spokesperson on finance, and later minister of finance) by neoliberal economists bent on entrenching small government and budget surpluses into statute law, and thereby tying the hands of future governments by embedding into public discourse the notion that 'responsibility' equates to minimising government spending and fully balancing the budget over time.[3] The resulting set of requirements for 'responsibility' were laid out in section 4 of the Fiscal Responsibility Act, and were carried over with only minor changes when it was rolled into the Public Finance Act in 2004 as section 26G.

The 'principles of fiscal responsibility', now embedded within the Public Finance Act, include mention of 'having regard to … likely impact on present and future generations' (s26G(1)(g) – something that was missing from the original Fiscal Responsibility Act but was added in 2004. This stands out as the sole, largely token, concession to the ideas behind the Living Standards Framework produced by the Treasury between 2008 and 2022 (Gleisner, Llewellyn-Fowler and McAlister, 2011; Treasury, 2021, 2022), which is difficult to reconcile with section 26G's tight focus on public finance conceived as housekeeping, virtually stripped of acknowledgement of the wider functions of government.

The Living Standards Framework helps to identify the proper scope of government functions and the purposes towards which fiscal strategy ought to be directed. It defines 'the wealth of Aoteoroa/New Zealand' as spanning four domains, of which the accountant's quantifiable financial/physical capital is only one; the others are human capability, the natural environment and social cohesion. All four are encompassed in the nation's 'culture', providing the foundation for institutions and governance, and individual and collective wellbeing. A responsible fiscal strategy aimed at increasing wellbeing would require all four of those asset categories at the bottom of Figure 3 to be

Figure 3: the Treasury's 2021 Living Standards Framework summary



Source: Treasury (2021) p.10.

sustained and enhanced over time, with policy maintaining a sustainable balance across them. The present framing of the Public Finance Act's 'principles' prioritises narrowly conceived financial issues to the near-exclusion of the other components of the nation's true wealth, and at the cost of the ultimate economic goals at the right-hand side of the figure – distribution, resilience, productivity and sustainability.

Similarly, the Public Finance Act's procedures for reporting against the principles, while ostensibly designed to facilitate and support a government's fiscal strategy, have in practice been allowed to dictate the strategy itself. The focus on the government's financial debt, rather than on the nation's stocks of the four components of wealth and the 12 components of individual and collective wellbeing, puts pressure on the government to pursue budget surpluses by running down public infrastructure and natural, human and social capital. But budgetary austerity that leaves inequality and poverty unchecked to destroy social and human capital is not responsible, and ought not to be described as such.

Having produced the 2021 Living Standards Framework, it is not clear why the sixth Labour government did not rewrite part 2 of the Public Finance Act to incorporate it into the core objectives of fiscal policy, and so overcome section 26G's confusion of financial bean-counting with actual economics. Possibly the fear of a political firestorm driven from the neoliberal Right proved a sufficient deterrent. The unfortunate consequence is that the Living Standards Framework bears the taint of fiscal 'irresponsibility', when the opposite ought to be the case.

The so-called Budget Responsibility Rules adopted by the 2017–23 Labour government (Robertson, 2018) and the fiscal strategy of the present government (Willis, 2025) rely on arbitrary numerical ratios to limit total spending and net debt. Both have aimed to hold 'core spending' at around 30% of GDP, and both have stated targets for 'net core Crown debt' requiring a reduction from the prevailing level. Part 2 of the Public Finance Act, comprising sections 26F to 26Z, does not define either 'core spending' or 'core debt'. It simply states in section 26F that 'references in this Part to total debt, total operating expenses, total operating revenues, and total net worth are references to the total fiscal aggregates of the forecast financial statements prepared in accordance with section 26Q'. Section 26Q just lays out a reporting framework; it does not define these aggregates. The definitions therefore are those imposed by the Treasury in its preparation of reports under the Act.

The spending and debt ratios in successive fiscal strategies were and are simply political artefacts. They have no real economic basis[4] other than their value as commitment devices to provide cover for fiscal austerity measures, and both are open to manipulation by shifting definitional boundaries (for example, inclusion or exclusion of the New Zealand Superannuation Fund from the 'core'). Treasury's definition of 'core spending' (Treasury, 2025a, p.154)[5] is inflated by including welfare transfers, which means that it differs massively from the national accounts concept of government consumption; yet it excludes infrastructure investment, which is surely a core function of government.[6] Revised definitions could bring the government's accounting framework more into line with the national accounts and the IMF's Government Finance Statistics, and new fiscal targets could embody a radically different balance between public and private provision of goods and services.

Definitions matter a lot in a practical sense, even when they don't make macroeconomic sense. The boundaries of the three components of 'total Crown' (core, Crown entities and state-owned enterprises) have in the past been treated as permeable for the purposes of gaming the 'fiscal responsibility rules', and clearly can be again. The treatment of Crown entities and state-owned enterprises as lying outside the 'core' in terms both of spending and of borrowing limits has been a loophole that enables the government to increase investment and net debt without breaking the letter of the principles, but it has the effect of increasing the cost of raising funds for programmes such as state house construction, while forcing policy debate into a distorting frame of reference. It would be more transparent to treat all public debt simply as Crown debt, shifting the focus from 'core Crown' to 'total Crown', with transfers reported separately.

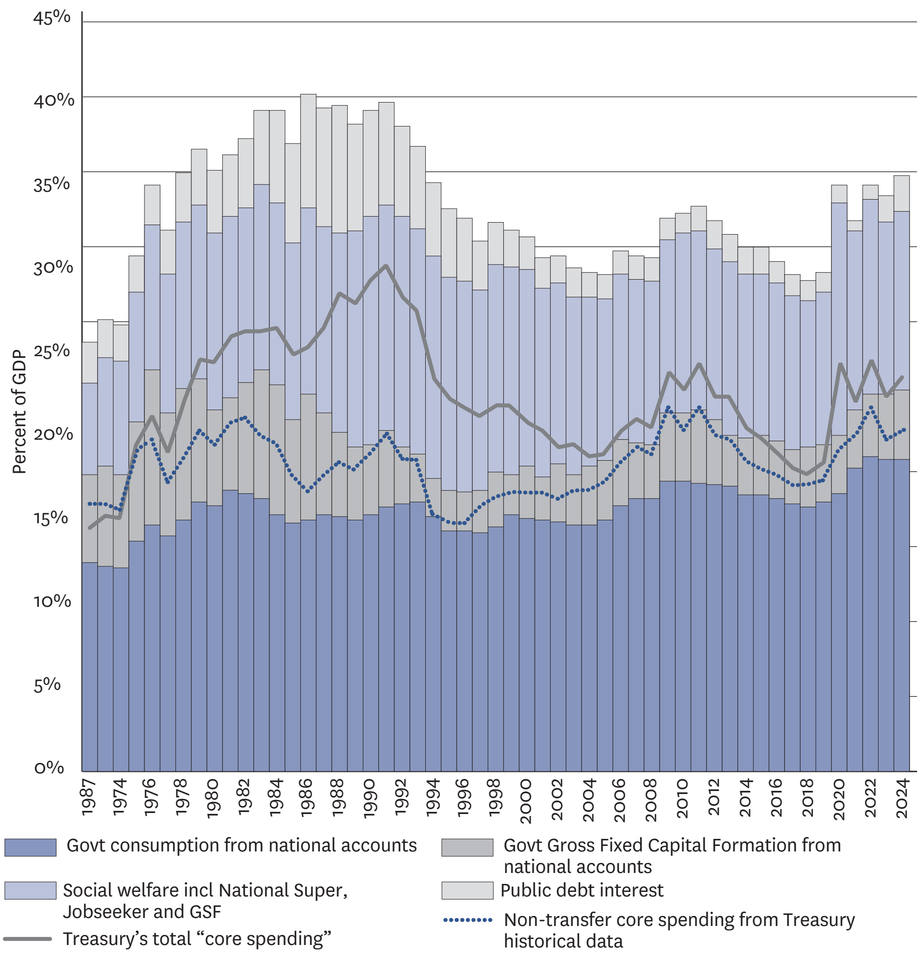
Equally, it would be more transparent to recognise that tax-funded transfers are not 'spending' in the true economic sense; they are simply transfers of spending power from one part of the community to another, with the actual spending remaining in the private sector. The inclusion of transfers in the 'core Crown' numbers makes the government look bigger than it really is, and exaggerates the 'burden' of taxation on the private sector, both of which make the classification scheme more a propaganda device than serious economics.

In the long run, the two essential issues in setting fiscal strategy should be, first, what are our aspirations as a society; and second, what is society's willingness and ability to 'raise sufficient revenue'[7] to fund those aspirations? Upper and lower bounds on government spending should be based not on rigid adherence to arbitrary ratios, but on the outcome of those strategic choices, with due regard paid to the macroeconomic limits which any New Zealand government has to respect: resource scarcity, full employment (defined in a sensible way – see, for example, Rose, 2019), and the balance-of-payments constraints facing a small open economy. These limits will vary in the short to medium term (with economic cycles) and in the longer run.

In allocating spending across the four components of wealth in Figure 3, difficult choices need to be made, and different governments will make different choices. But it is in transparently making and implementing those choices that real fiscal responsibility lies, not in sacrificing genuine wellbeing in the name of preconceived debt or spending ratios.

Figure 4 shows how the Treasury's spending categories map onto the national accounting magnitudes for the government sector. 'Core Crown spending', as already noted, consists of a combination of consumption spending and transfers, which is confusing from a macroeconomic perspective, since Crown gross capital formation lies outside the 'core', while transfers are *within*. The squeeze on transfers since 1990 is clear and accounts for all the achieved shrinkage of the state sector over the past three decades. Between 1990 and 2020, debt servicing fell from 7% to 1% of GDP and benefits from 14% to 9% of GDP; in 2024 they had rebounded only marginally, to 2% and 11% respectively.

Figure 4: New Zealand Central Government total spending by general category, 1972–2024



Source: Infoshare and Treasury, 2025b; author's calculations

The actual claim on real resources by central government consumption and investment was around 23% of GDP in the early 1980s, fell to a low of 18% in 1994, and has since returned to 23%. The composition of that total resources claim has shifted, however, with a substantially lower share for capital formation and a higher share for current spending. The squeeze on investment in the 1990s is especially striking. This corresponds to the evidence from other sources of cumulative underinvestment in public infrastructure in recent decades (Nunns et al., 2025) and is testament to the folly of holding to an arbitrary target ceiling for 'core spending' in the face of inexorably rising needs for government consumption to maintain basic public services.

The small-government framework has been implemented since 1990 without making a long-run dent in government consumption relative to GDP. With incompressible consumption, with investment needs pressing urgently, and with debt servicing beginning to rise again, enforcing the 30% target inescapably puts benefit transfers under increasing pressure, implying a consequent worsening of poverty and deprivation.

The fact that government provision of education, health and other public services is labelled 'consumption' in the national accounts leads to a widespread misconception that the government is 'unproductive', which in turn is often linked to a claim that taxes represent a 'deadweight burden' on the productive economy. In fact, the 19% of GDP described as 'government consumption' in Figure 4 is really production, and is included in GDP on that basis as a productive contribution. So how did it come to be called 'consumption', as if it were a use, rather than a supply, of domestic product?

The problem is that national income accounting, as it developed in the 20th century, relied heavily on recording the money value of goods and services that were sold through markets, and struggled with non-marketed production. Most notoriously, the unpaid housework performed mostly by women remained entirely outside the statisticians' definition of GDP (Waring, 1988; Federici and Austin, 2017; Cassidy, 2025, ch.24), while the non-marketed rental value of owner-occupied property was included as imputed production. Government services are undeniably produced, in the sense of combining labour, capital and resources to produce output, and so clearly belong within GDP, but because they are not sold through a market, they do not have market-determined prices for the statisticians to add up. Instead, the government implicitly buys its own production from itself – hence the notion that this is a sort of 'consumption' – and the statisticians record just the cost of providing the services. But to treat this part of the total social product as less 'productive' than the rest, or even to describe it as 'unproductive', completely misrepresents the economic reality.

This confusion spills over into the sphere of public–private contracting, because of the false impression that when a public service ceases to be provided on a non-market basis by the government itself and instead is purchased from a private sector provider, this is a more productive means of delivery, when in fact the opposite is frequently the case. The shortcomings of the contractarian approach to providing public services are laid bare in Hart (2017), Hart, Schleifer and Vishny (1997) and Hart and Moore (1999). Contracts are generally incomplete, and information is asymmetrically distributed between the two parties, opening the way to post-contractual opportunism and non-performance of key functions by the provider party, while the funder (the government) is able to abdicate responsibility for the outcomes of the deal.

This misconception about productiveness has been freely exploited by the proponents of small government to give the impression that any increase in the size of government relative to GDP involves a reduction in the productive allocation and use of resources. Adoption of this view of its own activity by the government itself results in a 'self-hating state' (Feffer, 2007) which actively curtails its productive contribution to society in the mistaken belief that this will strengthen the economy at large. There will undoubtedly be an ideal balance between public and private activity in the economy, but there is no reason to believe that setting 'core spending' at 30% bears any relation to that optimum. There seem strong grounds for thinking that 19% is too low a ratio for public services ('government consumption') and that 4% of GDP for public investment is dramatically too low.

... a strong strand in the literature of neoliberalism has been so-called 'constitutional political economy', which proposes that the scope and power of government be tightly constrained by the imposition of rules ...

The neoliberal iron cage

As noted earlier, a strong strand in the literature of neoliberalism has been so-called 'constitutional political economy', which proposes that the scope and power of government be tightly constrained by the imposition of rules, ideally imposed by statute, within which politicians and officials are obliged to operate. The Fiscal Responsibility Act 1994 was a classic example of the genre in New Zealand. The Regulatory Standards Bill making its way through Parliament at the time of writing is the latest, and from the same stable. Others have been section 4 of the State-Owned Enterprises Act 1986 (which forced a profit motive onto operations supplying public goods, several of which optimally should run at a loss), the Commerce Act 1986, the Reserve Bank Act 1989 and the State Sector Act 1988.

The changes brought by the last of these have been described as follows:

> These reforms sought to embed the theory of the marketplace and business-like management models in public organisations. They transformed the Public Service from a unified organisation with one employer into separate departments, each with their own chief executive acting as employer of departmental staff. Departments were treated as if they were separate firms in a private sector context. The core principles of the reforms were accountability, contractualism, managerialism and decentralisation. While many other jurisdictions adopted similar practices, New Zealand went further and faster than any other government. (State Services Commission, 2019, p.3)

A key problem from the outset with the new public management model was a shift in focus from 'outcomes' to 'outputs': 'the system incentivises separate agencies to be … focused on the production of outputs, but not incentivised to connect with others or focused on achieving better outcomes' (ibid., p.5). A clear explanation of the process of removing outcomes from the goals of government agencies, and substituting outputs of the kind that could be specified, measured and contracted for in the monetary terms familiar to accountants, is laid out by Scott et al.:

> *Outputs* refer to goods and services delivered, whereas outcomes are impacts on the community that provide the rationale for government action. To illustrate the distinction, a reduction in the incidence of a disease is an outcome (and something which cannot be bought directly), whereas a surgical intervention, an inoculation program, or a health education campaign are all services (outputs) which could be acquired from either public or private sector providers.
>
> … the reformers concluded that to attempt to enhance accountability of

chief executives in outcome terms would not work in practice … Instead, it was decided that better performance would be achieved by holding policy advisers accountable for the quality of their outputs (advice) and service providers accountable for delivering the outputs (services) that ministers chose to acquire on the basis of high-quality, transparent policy advice. (Scott, Ball and Dale, 1997, pp.363–4)

The central weaknesses of this approach were apparent to many observers at the time (Boston et al., 1996; Boston and Pallot, 1997; Gregory, 2006). It relied on politicians taking full responsibility for specifying clear outcomes they wished to secure, and then translating those outcomes accurately into precisely defined 'outputs', the delivery of which could be contracted for from government departments and agencies. Yet, as Boston and Pallot observed, the 'definition of objectives was plagued by politicians and bureaucrats unwilling to set goals against which they might later be held accountable' (Boston and Pallot, 1997, p.384).

This separation of strategic thinking from operational responsibilities opened the way for the actual outcomes of policy to be subordinated to arbitrary short-term operational targets, such as the 30%-of-GDP ceiling on 'core spending'. In giving primacy to the target over consideration of the outcomes, the government in effect is able to abdicate from accepting responsibility for those outcomes. Popular distaste for the consequences of fiscal austerity may be disarmed in the short term by appeal to the alleged principles of fiscal responsibility. But in the longer term, unreasonable restraints on the ability of governments to deliver on a democratic mandate are likely to prove politically unsustainable.

In this light, the quest for positive alternatives to the present stance of fiscal policy is now urgent. A critical choice is to either amend, or repeal, section 26G of the Public Finance Act. Each option has its merits, but a proper inspection of each would require much more space than this article allows. However, either option requires at least two central elements to rectify the shortcomings of section 26G. First, any statutory principles need to be clearly grounded in economic needs and challenges and perspectives, rather than the narrow financial framing of the present section 26G.

Second, any principles (or replacement legislation) need to provide an explicitly *economic* objective, to break the Public Finance Act's conflation of finance with economics. Whether the objective is wellbeing (as set out in the Living Standards Framework and other similar documents); macroeconomic balance in terms of productive use of resources, the balance of payments and private sector balance sheets; real resilience in the face of natural disasters (as Forward and Foreman argue elsewhere in this issue); or environmental sustainability and legacy are matters for political and electoral debate and decision making.

A courageous, constructive and important initiative in that direction is the Green Party's alternative budget (Green Party, 2025). Other political parties could usefully follow suit, well in advance of the next general election, to enable fiscal policy to be constructively debated and democratically designed.

1 For a history of this Act written from a sympathetic point of view, see Buckle, 2018. A contemporary description by one of the architects of the measure is Scott, 1995.

2 Hansard, vol.540, 26 May 1994, p.224.

3 Graham Scott and Bryce Wilkinson were singled out in Parliament by Richardson as key advisers in designing the 1994 legislation (ibid., p.223). Roger Kerr's speech in 2004 at the time when the 1994 responsibility rules were incorporated into the Public Finance Act (Kerr, 2004) gives a good feel for the Business Roundtable's intellectual thrust towards smaller government under the principles, and its complaint that not enough restraint on government had been achieved by that time.

4 In particular, there is no solid evidence for the proposition advanced in the Roger Kerr speech (Kerr, 2004) that small government is a necessary condition for economic success.

5 The present definition of 'core Government' first appeared in the 2003 Crown financial statements (https://www.treasury.govt.nz/publications/year-end/financial-statements-government-new-zealand-year-ended-30-june-2003, pp.6–7 and 47–49) as a change in the 'combination' of selected items of revenue and expenditure. The new list of included items is on p.25 of the 2003 financial statements, and the new distinction between 'core Crown' and 'Crown entities' is shown on p.34. No systematic justification was given at the time, so far as I am aware. However, the 2004 financial statements provide the following definitions: 'Core Crown revenues … are the revenues the Government collects. They are mainly taxes. Core Crown expenses … represent most of the Government's spending, BUT not all of it. This is the day-to-day spending (salaries, benefit payments, etc) that does not create Government assets' (https://www.treasury.govt.nz/sites/default/files/2007-10/fsgnz-jun04.pdf p.7).

6 For discussion of the conflicts between policy goals and accounting classifications under new public management, with a case study of the Natural Disaster Fund, see Newbery, 2020.

7 More accurately, society's willingness to sacrifice private claims on scarce resources in order to clear fiscal space for government to operate, with taxation as the instrument for constraining private claims.

References

Bertram, G. (1993) 'Keynesianism, neoclassicism, and the state', in B. Roper and C. Rudd (eds), *State and Economy in New Zealand*, Auckland: Oxford University Press

Bertram, G. (1997) 'Macroeconomic debate and economic growth in postwar New Zealand', in C. Rudd and B. Roper (eds), *The Political Economy of New Zealand*, Auckland: Oxford University Press

Bertram, G. (2009) 'The New Zealand economy, 1900–2000', in G. Byrnes (ed.), *The New Oxford History of New Zealand*, Melbourne: Oxford University Press

Blyth, M. (2013) *Austerity: the history of a dangerous idea*, Oxford: Oxford University Press

Boshier, J. (2022) *Power Surge: how Think Big and Rogernomics transformed New Zealand*, Auckland: New Holland

Boston, J. (2017) 'Committing to a better future: the nature, design, and limits of commitment devices', in *Governing for the Future: designing democratic institutions for a better tomorrow*, Emerald Group Publishing Limited

Boston, J., J. Martin, J. Pallot and P. Walsh (1996) *Public Management: the New Zealand model*, Auckland: Oxford University Press

Boston, J. and J. Pallot (1997) 'Linking strategy and performance, developments in the New Zealand public sector', *Journal of Policy Analysis and Management*, 16 (3), pp.382–404

Brennan, G. and J. Buchanan (1986) *The Reason of Rules: constitutional political economy*, Cambridge: Cambridge University Press

Buckle, R.A. (2018) *A Quarter of a Century of Fiscal Responsibility: the origin and evolution of fiscal policy governance and institutional arrangements in New Zealand, 1994–2018*, working paper in public finance 13/2018, Wellington: Victoria University of Wellington, https://www.wgtn.ac.nz/__data/assets/pdf_file/0004/1863760/WP-13-2018-A-quarter-of-a-century-of-fiscal-responsibility.pdf

Buckle, R.A. and S.L. Snively (1979) *The Budget Impact on Aggregate Demand and the Money Supply*, discussion paper 24, Wellington: NZIER

Cassidy, J. (2025) *Capitalism and its Critics*, New York: Farrar, Strauss and Giroux

Dalziel, P. and O. Lattimore (1996) *The New Zealand Macroeconomy: a briefing on the reforms*, Auckland: Oxford University Press

Easton, B. (1997) *In Stormy Seas: the post-war New Zealand economy*, Dunedin: University of Otago Press

Easton, B. (2020) *Not in Narrow Seas: the Economic History of Aotearoa New Zealand*, Wellington: Victoria University of Wellington Press.

Federici, S. and A. Austin (eds) (2017) *Wages for Housework: the New York Committee 1972–1977: history, theory, documents*, New York: Autonomedia

Feffer, J. (2007) 'The self-hating state', *Foreign Policy in Focus*, 2 (16), https://fpif.org/the_self-hating_state/

Forward, T. and M. Foreman (2025) 'The debt ceiling and its discontents', *Policy Quarterly*, 21 (4)

Friedman, M. (2003) 'What every American wants', *Wall Street Journal*, 15 January

Gibbons, M. (2017) 'Government expenditure in New Zealand since 1935: a preliminary reassessment', *Policy Quarterly*, 13 (2), p.56–64

Gill, D. (2018) *The Fiscal Responsibility Act 1994: The astonishing success of a weak non-binding policy*, working paper 2018/1, Wellington: NZIER, https://www.nzier.org.nz/hubfs/Public%20Publications/Working%20papers/nzier_discussion_paper_2018_no1_updated.pdf

Gleisner, B., M. Llewellyn-Fowler and F. McAlister (2011) 'Broadening our understanding of living standards: Treasury's new policy framework', *Policy Quarterly*, 7 (3), pp.13–19

Gould, J. (1985) *The Muldoon Years: an essay on New Zealand's recent economic growth*, London: Hodder and Stoughton

Green Party (2025) *Green Budget 2025*, https://assets.nationbuilder.com/beachheroes/pages/39988/attachments/original/1756800427/Budget_Print_MW_version_5-08-25_web.pdf?1756800427

Gregory, R. (2006) 'Theoretical faith and practical works: de-autonomising and joining up in the New Zealand state sector', in T. Christensen and P. Lægreid (eds), *Autonomy and Regulation: coping with agencies in the modern state*, Cheltenham: Edward Elgar

Hart, O. (2017) 'Incomplete contracts and control', *American Economic Review*, 107 (7), pp.1731–52

Hart, O. and J. Moore (1999) 'Foundations of incomplete contracts', *Review of Economic Studies*, 66, pp.115–38

Hart, O., A. Schleifer and R. W. Vishny (1997) 'The proper scope of government: theory and application to prisons', *Quarterly Journal of Economics*, 112 (4), pp.1127–51

Kerr, R. (2004) 'The Fiscal Responsibility Act: a stocktake', *Scoop*, 6 October, https://www.scoop.co.nz/stories/BU0410/S00057/the-fiscal-responsibility-act-a-stocktake.htm

McAloon, J. (2013) *Judgements of All Kinds: economic policy-making in New Zealand 1945–1984*, Wellington: Victoria University Press

MacLean, N. (2017) *Democracy in Chains: the deep history of the radical Right's stealth plan for America*, New York: Viking

Newbery, S. (2020) 'Policy conflict: the influence of fiscal targets on reform of New Zealand's natural disaster fund', *Financial Accounting and Management*, 36 (2), pp.189–206

Niskanen, W.A. (2006) 'Limiting government: the failure of "starve the beast"', *Cato Journal*, 26 (3), pp.553–8

Nunns, P., G. Campbell, P. Stevens and E. Barson-McLean (2025) *Nation Building: a century and a half of infrastructure investment in New Zealand*, Wellington: New Zealand Infrastructure Commission/Te Waihanga, https://media.umbraco.io/te-waihanga-30-year-strategy/fhlntpbg/te-waihanga-ri-nation-building-final.pdf

Robertson, G. (2018) *Fiscal Strategy Report: foundations for the future*, Wellington: New Zealand Government, https://www.treasury.govt.nz/sites/default/files/2018-05/b18-fsr.pdf

Rose, D. (2019) *Fiscal History, Fiscal Policy*, working paper 19/03, Wellington: Institute for Governance and Policy Studies, Victoria University of Wellington, https://www.wgtn.ac.nz/__data/assets/pdf_file/0004/1784083/WP-19-03-fiscal-history-fiscal-policy.pdf

Rose, D. (2021) *Fiscal Policy for Full Employment: a necessary complement to monetary policy focused on price stability*, working paper 21/15,Wellington: Institute for Governance and Policy Studies, Victoria University of Wellington, https://www.wgtn.ac.nz/__data/assets/pdf_file/0011/1983629/igps-working-paper-fiscal-policy-for-full-employment-nov-2021.pdf

Scott, G. (1995) 'New Zealand's Fiscal Responsibility Act', *Agenda*, 2 (1), pp.2–16

Scott, G., I. Ball and T. Dale (1997) 'New Zealand's public sector management reforms: implications for the United States', *Journal of Policy Analysis and Management*, 16 (3), pp.357–81

State Services Commission (2019) 'Impact statement: State Sector Reform Act', https://www.publicservice.govt.nz/assets/DirectoryFile/Impact-Statement-State-Sector-Act-Reform.pdf

Treasury (2021) *The Living Standards Framework 2021*, https://www.treasury.govt.nz/sites/default/files/2021-10/tp-living-standards-framework-2021.pdf

Treasury (2022) *The Living Standards Framework Dashboard*, https://www.treasury.govt.nz/sites/default/files/2022-03/lsf-dashboard-apr22_2.pdf

Treasury (2025a) *Budget Economic and Fiscal Update 2025*, Wellington: Treasury, https://www.budget.govt.nz/budget/pdfs/befu2025/befu25-v2.pdf

Treasury (2025b) 'Fiscal time series and historical indicators 1972–2024', https://www.treasury.govt.nz/publications/information-release/data-fiscal-time-series-historical-fiscal-indicators

Waring, M. (1988) *Counting for Nothing: what men value and what women are worth*, Wellington: Allen and Unwin and Port Nicholson Press

Willis, N. (2025) *Fiscal Strategy Report*, Wellington: New Zealand Government, https://www.treasury.govt.nz/sites/default/files/2025-05/b25-fsr.pdf

Wren-Lewis, S. (2018) *The Lies We Were Told: politics, economics, austerity and Brexit*, Bristol: Bristol University Press