ANY NEW KIDS AT THE TROUGH?

CORPORATE WELFARE IN THE 2015 BUDGET

TAXPAYERS' UNION

YOUR MONEY, YOUR VOICE

Promoting sensible restraint of government expenditure

AUTHOR

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> "For every dollar spent on corporate welfare, is one less dollar for education, health, or investment by the taxpayer who earned it."

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Foreword by Matthew Elliott

Corporate welfare epitomises a political hubris that elected officials and bureaucrats know how to spend the fruit of one's labour better than the person who earned it. In their previous paper, *Monopoly Money*, the *Taxpayers' Union* exposed that New Zealand taxpayers spent $1.172 billion on corporate welfare in the 2014 Budget.

Any New Kids At The Trough updates the figures from *Monopoly Money* to take account of Budget 2015. It shows that the annual cost of corporate welfare has increased by almost $200 million and asks why lower company tax rate for all, isn't better than government schemes to pick winners, or worse, bailout losers.

As with all areas of waste of public money, the role of the *Taxpayers' Union* and the equivalent British group I founded eleven years ago, the *TaxPayers' Alliance*, the key failure of policymakers is not considering the counterfactual: how might the taxpayers have otherwise spend their money?

Often grants and top-ups are used as a means to preserve a government's own political capital. The temptation of granting taxpayer-funded favours to businesses is often born of political expediency and a belief in self-preservation, rather than any real belief in problems of market failure. The role of taxpayer groups around the world is to remind politicians that taxpayers' money is precious and every cent should be going to an effective use. As Jim Rose has effectively laid out in the earlier report, corporate welfare is usually counterproductive in growing the economic pie. Despite the political rhetoric of helping growth and innovation, it is ultimately a waste of money.

A reduction in the company tax rate from 28 to 22.5 percent is an attractive opportunity for the Government. It would result in greater competitiveness for all New Zealand businesses and increase the viability of those firms to employ more people. What these reports demonstrate is that lower taxes – not additional government spending – are the best driver of economic growth and prosperity. That is true both to New Zealand and the rest of the world.

Politicians would do best to understand that capitalism is a profit and loss system. When they do not, it is ultimately taxpayers who lose.

Matthew Elliott is the Chief Executive of Business for Britain - a group wanting a better deal from the EU. Matthew founded the British TaxPayers' Alliance eleven years ago which now has more than 80,000 members across the UK.

1 Introduction and Key Findings

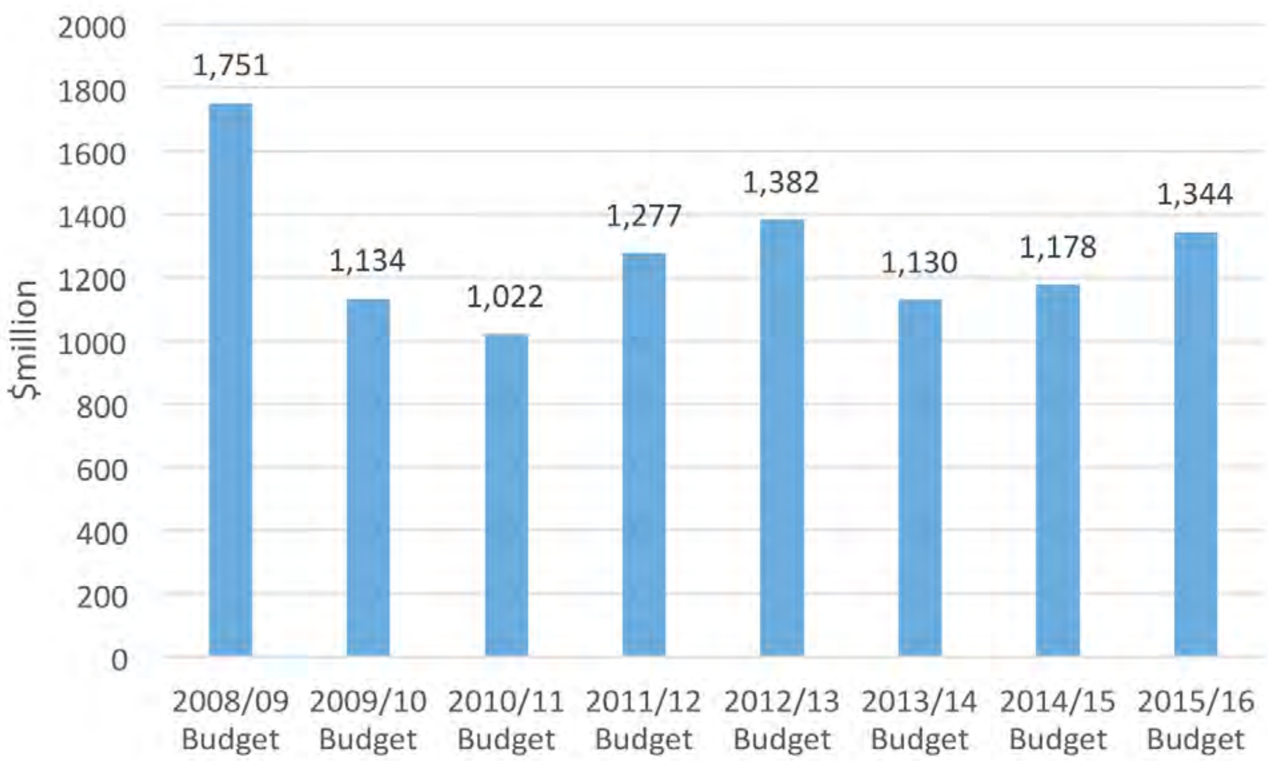
This report is an update to *Monopoly Money: the cost of corporate welfare since 2008*, which was published by the *Taxpayers' Union* in October 2014. This report is based on the new appropriations in Budget 2015 presented to Parliament on 21 May 2015. The original report is available for viewing and download at www.taxpayers.org.nz/monopoly_money.

Corporate welfare is another name for subsidies to businesses. The substantive arguments against corporate welfare are detailed in *Monopoly Money*. In brief, the *Taxpayers' Union* objects to the Government using taxpayer money for corporate welfare as it runs against the notion that businesses should make a profit or go out of business. If a business is losing money, it should try better, do something different or close. No business should be premised on subsidies.

The key finding of this update is corporate welfare increased in the seventh budget of the National Party led Government. This increase was from $1.178 billion in the 2014 budget to $1.344 billion in the 2015 budget – see figure 1.

Per New Zealand household, the cost of corporate welfare in Budget 2015 equals $752.

Figure 1: Corporate welfare, Budgets 2008/09 to 2015/16



Source: New Zealand budget papers, various years.

Table 1 and Figure 2 summarise corporate welfare under the National-led Government and the last budget of the Labour-led Government by ministerial portfolio. The leading driver of the increase in corporate welfare in Budget 2015 are larger subsidies for irrigation. This new irrigation funding has resulted in the more than doubling of the cost of corporate welfare in the primary industry sector.

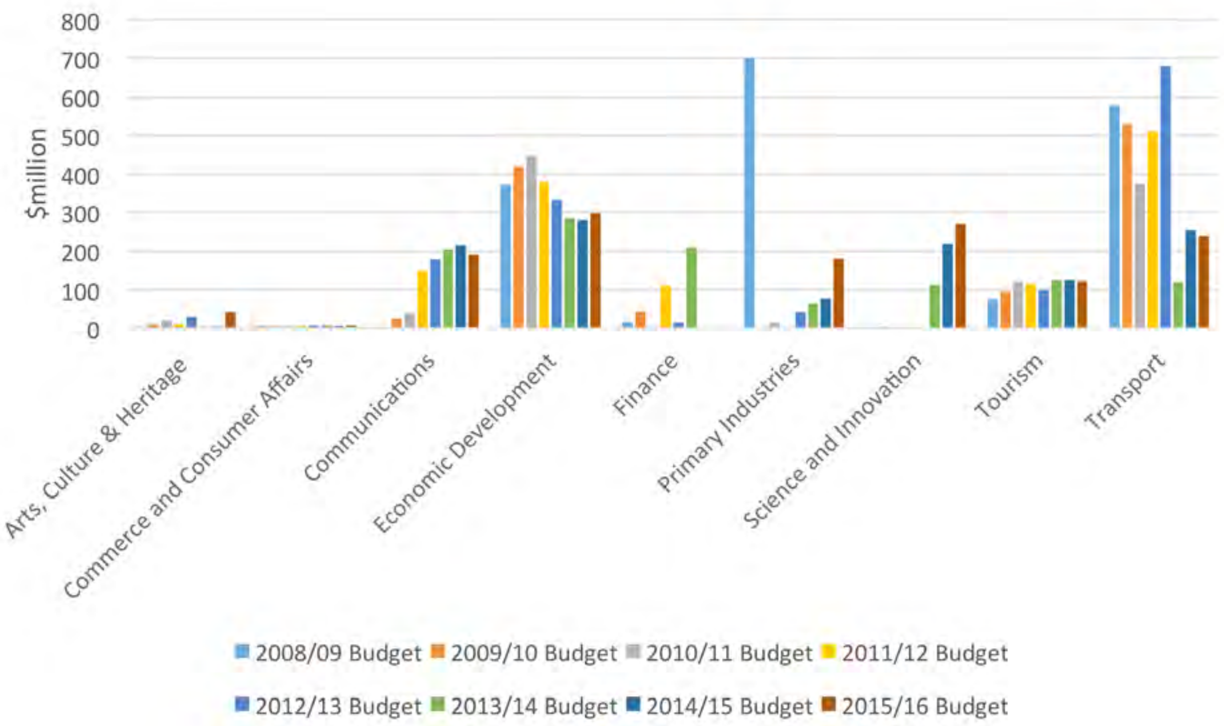
TABLE 1: CORPORATE WELFARE IN BUDGETS 2008/09 TO 2015/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Arts, Culture & Heritage	3	11	19	10	29	4	4	42
Commerce & Consumer Affairs	6	6	6	6	7	7	6	7
Communications	0	25	39	150	178	205	215	190
Economic Development	372	419	446	379	332	284	280	297
Finance	16	44	3	108	15	210	0	0
Primary Industries	700	0.3	14	0	43	65	77	180
Science and Innovation	0	4	0	0	0	112	219	269
Tourism	76	94	119	113	98	124	124	121
Transport	578	530	376	510	680	119	255	239
Total ($million)	**1,751**	**1,134**	**1,022**	**1,277**	**1,382**	**1,130**	**1,178**	**1,344**
$ per household	1,044	668	598	741	797	646	663	752

Source: New Zealand budget papers, various years.

Corporate welfare has ranged between about $1 billion and $1.4 billion per year in each of the seven budgets presented by the current National-led Government – see Table 1. Budget 2015 was no exception to the gradual upward trend in corporate welfare under the National-led governments – see Table 1 and Figures 1 and 2.

Figure 2: Corporate welfare, Budgets 08/09 to 15/16 by Vote



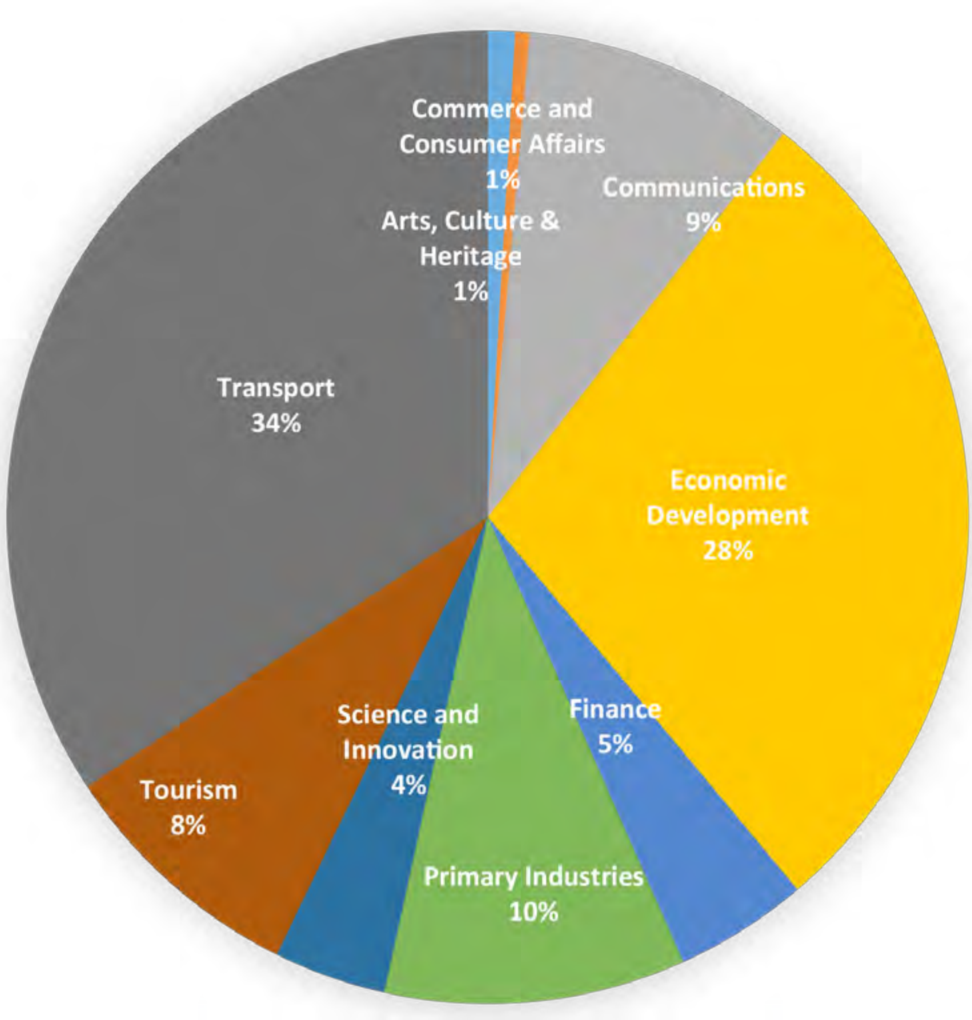
Source: New Zealand budget papers, various years.

Note: Vote Commerce and Consumer Affairs omitted in all years.

The predominant recipient of corporate welfare in Budget 2015, and all of those since 2008, is KiwiRail. Vote Transport accounts for a third of all corporate welfare – see Figure 3. Comments from the Minister of Finance responding to questions from journalists in the Budget 2015 'lock-up' signalled that the patience of the Government is coming to an end regarding KiwiRail deficits. This is a welcome development.

Vote Economic Development is the next largest source of corporate welfare and accounts for 28% of the total since 2008 – see Figure 3. Corporate welfare in Vote Economic Development has been in decline in recent budgets because one-off support for mega-events such as the Rugby World Cup and the Shanghai Expo are in the past.

Figure 3: Distribution of total corporate welfare across votes, 2008/09 to 2015/16



Source: New Zealand budget papers, various years.

A rising player on the corporate welfare horizon is Vote Science and Innovation. Subsidies under the hand of the Minister of Science and Innovation have increased from $219 million in the 2014/15 Budget to $269 million in Budget 2015.

Unfortunately these subsidies are not for core science. Taxpayer funding of science, where the outputs are unlikely to be commercially viable (such as where the outputs are unable to be patented) is not captured within the definition of 'corporate welfare' applied by this paper and *Monopoly Money*.

Instead, these subsidies are by in large grants to private businesses for commercialisation of scientific discoveries. The amounts are, in effect, underwriting the private businesses and entrepreneurs which are in line to reap any resulting profits. Working out which new ideas to test on the market is best left to those who are willing to invest their own money and take the risk (as well as the reward).

If an industry is likely to be profitable in the long run, entrepreneurs will risk losses in their first years of the business. These losses are an investment paid back by later profits. If private investors are unwilling to accept the losses inherent in establishing any new venture, it indicates that market participants anticipate potential profits are not large nor certain enough to chance their own money.

Capitalism is a profit and loss system. The competitive market process selects which innovators are rewarded with profits and which fall by the wayside because of losses. Subsidies impede this competitive market process of trial and error. They replace entrepreneurial risk-taking with officials and politicians trying to 'pick winners' as an agent for taxpayers.

Political processes cannot replicate the outcomes of competitive market selection. Most of the knowledge about what consumers will buy is revealed down the road as the market sifts and sorts between competing product options. The market process of trial and error is the process that reveals which products and firms have a future. There is no other way to uncover this knowledge. It is a poor investment for the taxpayer for governments to pretend they can pick winners.

The $200 million or so in annual subsidies to Crown Fibre Holdings to develop Ultra-Fast Broadband is making Vote Communications another major source of corporate welfare – see Figure 2 and Table 1. As covered in *Monopoly Money*, taxpayers have been forced to fork out for fast broadband that would almost certainly be built by the private sector if entrepreneurs thought the risk was worth risking their own money and reputation. Worse still, developments in copper broadband technology may mean that the UFB is largely worthless for all but the central business districts across New Zealand. Those areas were most likely to have been served by private providers without Government interference.

Other growing areas of corporate welfare are in Vote Primary Industries and Vote Tourism. This year's Budget sees increased subsidies for irrigation construction projects and a continuation of the $120 million per year funding for tourism promotion subsidies.

What taxpayers need to ask of these business subsidies is what do they get for the money? What is the problem that has been solved? Could this problem be solved by market processes at its own pace?

Hundreds of millions of taxpayers' hard earned dollars are being put at risk in commercial ventures that the private sector didn't believe worthy of backing with its own money.

> **"The bailouts for KiwiRail and Solid Energy signal to all state owned enterprises that when they get into trouble, there will be subsidies and bailouts forthcoming. The link between profits, innovation, cost control, and even good customer service are being uncoupled by this Government's willingness to get out the taxpayer chequebook."**

2 Minister of Finance

In the first five budgets of the National-led government, the Minister of Finance propped-up many losers. This type of expenditure is arguably the worst form of corporate welfare: no solving of externalities, market failures or even an infant industries argument. Government bailouts are old time industry policy, which slows down the evolution of the economy and misdirects resources. Often the desire is to avoid the political fallout of job losses. Taxpayers will welcome the fact that in the last 12 months the Minister of Finance has not participated in any major bailout – see Table 2.

TABLE 2: CORPORATE WELFARE, VOTE FINANCE (EXCLUDING KIWIRAIL), BUDGETS 08/09 TO 15/16

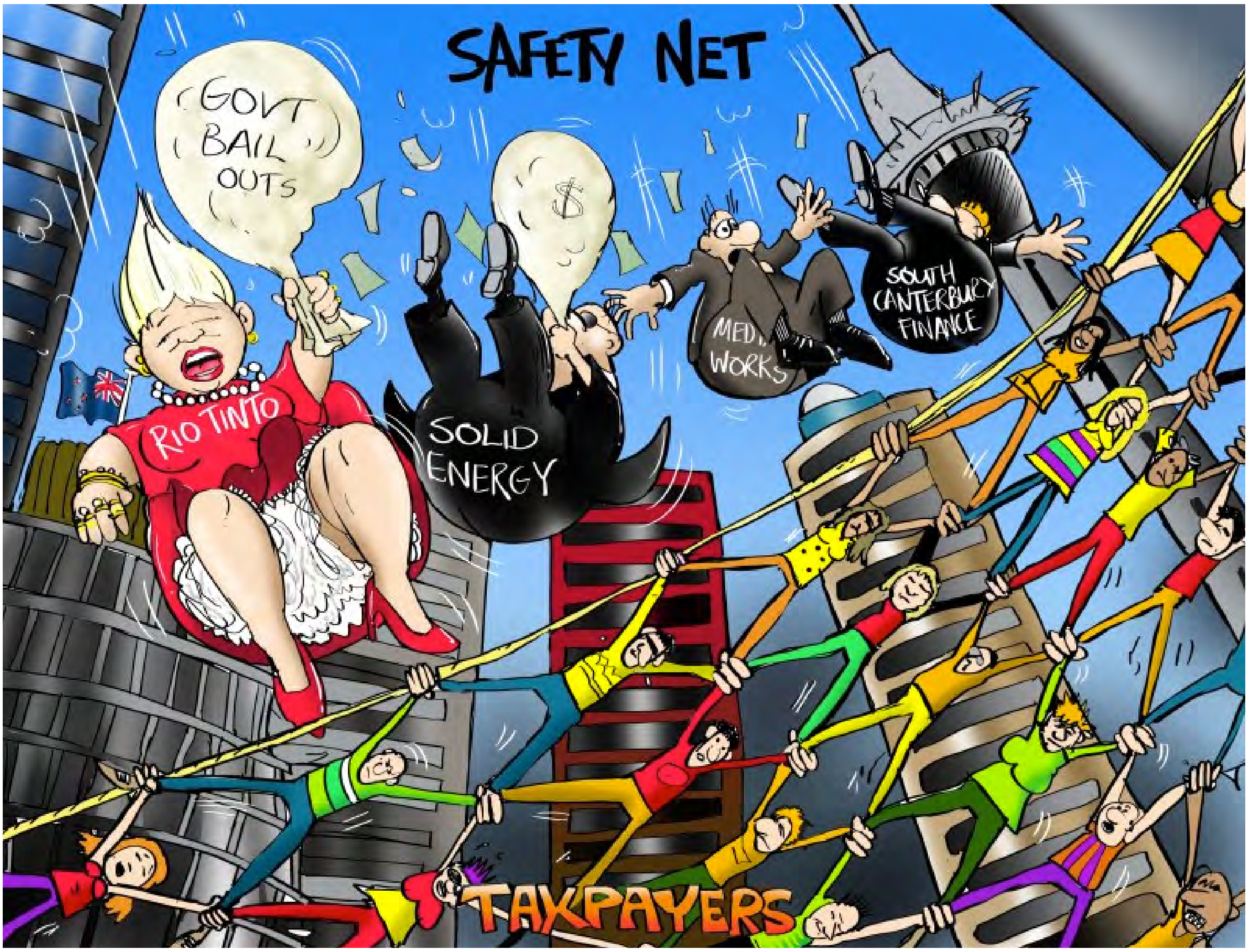
	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Solid Energy New Zealand Limited - Loan Facilities					15	130		
Solid Energy New Zealand Limited - Redeemable Preference Shares						25		
Solid Energy New Zealand Limited - Redeemable Preference Shares Impairment				25		25		
New Zealand Export Credit Office	2.2	2.9	2.9					
Payment in respect of Export Credit Office Guarantees and Indemnities			0.2					
Rugby New Zealand 2011 Limited		4						
Rugby World Cup 2011				108.1				
New Zealand Aluminium Smelters - Electricity Agreement Incentive Payment						30		
Public Trust Capital Injection		30						
Hawke's Bay Airport Equity Injection	8	7.4						
Industrial Research Limited Equity Injection	4.5							
New Zealand Railways Corporation Loans	55							
New Zealand Railways Corporation Increase in Capital for the Purchase of the Crown Rail	376							
Crown Rail Operator Loans	140							
Crown Rail Operator Equity Injection	6.8							
Invercargill Airport Suspensory Loan	1.5							
Total ($million)	**594**	**44.3**	**3.1**	**133.1**	**15**	**210**	**0**	**0**

Source: New Zealand budget papers, various years.

In March the *Taxpayers' Union* publicly expressed concern regarding reports the Government had indemnified Solid Energy's directors. The Union was concerned that the move signalled the company was (or soon would be) operating while insolvent. Future creditors of Solid Energy would likely be able to call upon the indemnity where otherwise directors would be liable to creditors for continuing to operate a company unable to pay its obligations as they fall due.

In a welcome development for the taxpayer, Budget 2015 suggests that Solid Energy is not expected to draw on its loan facility with the Crown. This is a welcome improvement on the 2013/14 Budget where Solid Energy ($180 million) and New Zealand Aluminium Smelters ($30 million) were bailed out because they were failing – see Table 2.

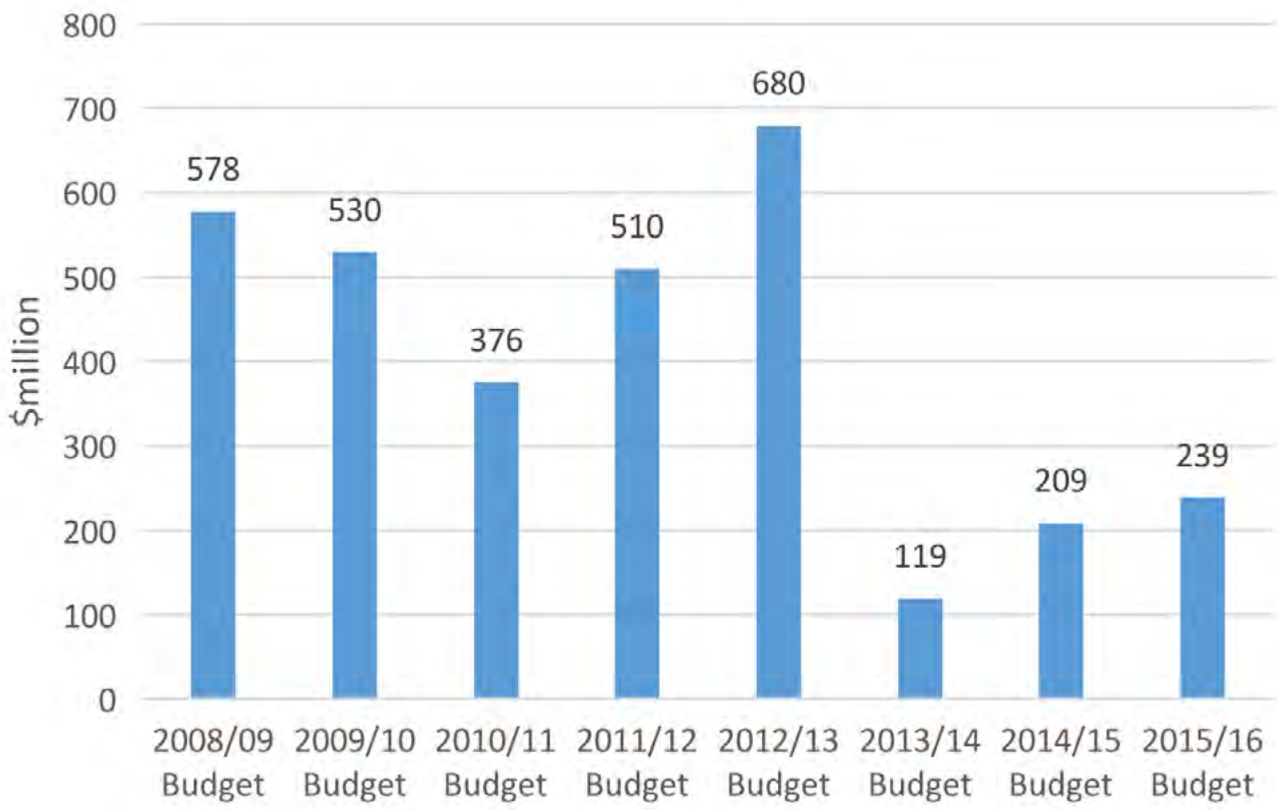
Solid Energy and New Zealand Aluminium Smelters were failing because their international competitors were better at serving their customers and keeping costs down. The effect of this corporate welfare under the patronage of the Minister of Finance was to prevent the market from working as it should every day, which is weeding out high cost suppliers, and favouring low cost suppliers.



3 Minister of Transport

KiwiRail has been a constant thorn in the taxpayers' side. Since this rail business was acquired in 2008 for $665 million as a commercial investment, Crown investments have totalled $3.4 billion– see Figure 4 and Table 3. This is in addition to write-downs in the Crown balance sheet of an incredible $9.8 billion (Bennett 2012).

Figure 4: State-owned enterprise welfare, Vote Transport and Vote Finance (KiwiRail), Budgets 08/09 to 15/16



Source: New Zealand budget papers, various years.

The government of the day was warned by the Treasury of the poor financial state of KiwiRail before it was purchased in 2008 for $665 million (Malpass 2009). KiwiRail was quickly written down to $365 million and subsequently revalued down to a notional one dollar in the Crown's balance sheet.

KiwiRail has a 10-year Turnaround Plan intended to make its business commercially viable. It can be downloaded at http://www.kiwirail.co.nz/uploads/Publications/kiwirail-turnaround-plan.pdf with the 2010 Cabinet paper available at http://www.treasury.govt.nz/publications/informationreleases/budget/2010/pdfs/b10-cab-kgtp-14apr11.pdf

Fortunately, comments by the Minister of Finance during the Budget 2015 lock-up signal that the Government's patience with the KiwiRail deficits is not unlimited. This is further to remarks in 2009 when he said (Swann 2009):

> *The Government is now the owner of a business which probably has no value, in fact negative value, having just eight months ago paid almost a billion dollars for it.*

TABLE 3: STATE-OWNED ENTERPRISE WELFARE, VOTE TRANSPORT AND VOTE FINANCE (KIWIRAIL), BUDGETS 2008/09 TO 2015/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
New Zealand Railways Corporation Loans		405	55	250	108		11	
KiwiRail Turnaround Plan		20	250	250	250	94	198	210
KiwiRail Equity Injection					323	25		29
Rail Network and Rolling Stock Upgrade		105	71	10				
New Zealand Railways Corporation Loans	55							
New Zealand Railways Corporation Increase in Capital for the Purchase of the Crown Rail	376							
Crown Rail Operator Loans	140							
Crown Rail Operator Equity Injection	7							
Total ($million)	**578**	**530**	**376**	**510**	**680**	**119**	**209**	**239**

Source: New Zealand budget papers, various years.

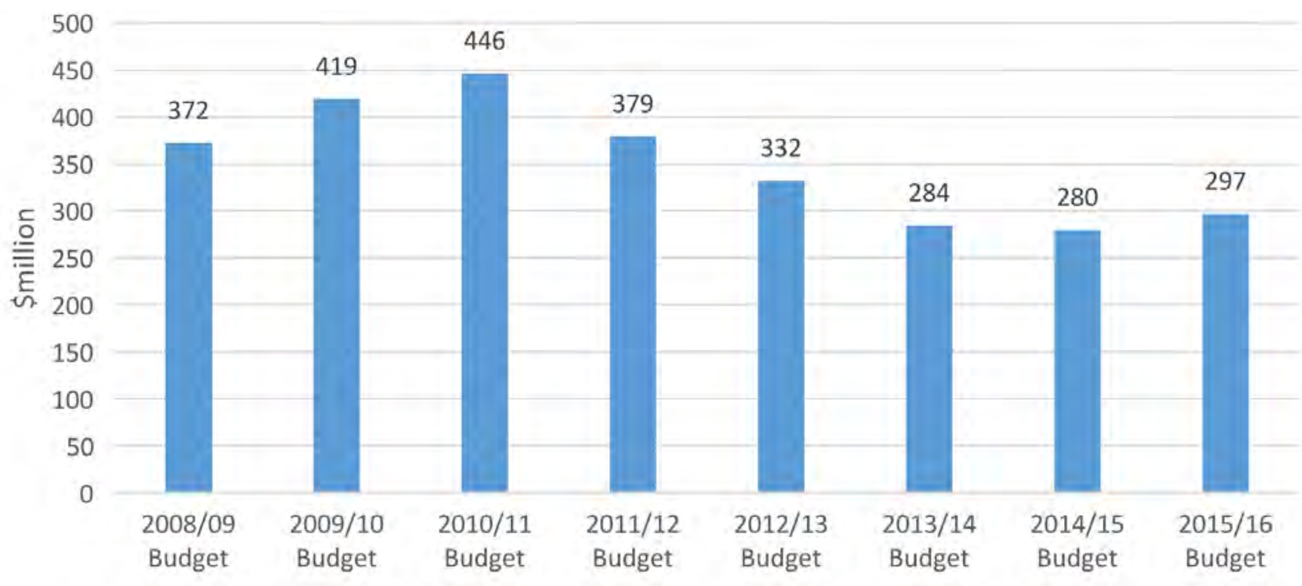
The unwillingness of governments to walk away from failing state-owned businesses is an on-going risk to taxpayers. Entrepreneurs have no choice when they exhaust their retained earnings and banks and private investors will no longer support them.

The Government needs to re-examine whether it thinks taxpayers should continually pay to prop up a business that shows little sign of 'turning around'. If not for these bailouts, revenue would be spared cut the company tax by one percentage point. It is possible that spending on rail is a substitute for spending on roads or has public good spins-offs (such as reducing New Zealand's carbon footprint). Nevertheless, we are unaware of any disciplined analysis examining this, or applying the NZTA cost/benefit modelling (used for roading infrastructure) to rail projects.

4 Minister for Economic Development

Between $280 million and $450 million in corporate welfare has been under the patronage of the Minister for Economic Development in each of the last eight budgets – see Figure 5. In Budget 2015, corporate welfare under the Minister's hand has increased slightly from $280 million to $297 million.

Figure 5: Corporate welfare, Vote Economic Development, Budgets 2008/09 to 2015/16



Source: New Zealand budget papers, various years.

Table 4 shows that corporate welfare under Vote Economic Development is peppered across many industries. The two big items remain trade promotion under various guises by New Zealand Trade and Enterprise and subsidies for the New Zealand film industry.

TABLE 4: CORPORATE WELFARE, VOTE ECONOMIC DEVELOPMENT, BUDGETS 08/09 TO 15/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Enhancing Small Business Capability and Performance					0.2	0.2	0.2	
Policy Advice - Small Business	1.7	1.5	1.2	1.4	1.3	1.5	1.2	1.2
Policy Advice - Economic Development							12.8	14.7
Policy Advice - Sectoral Leadership, Firm Capability, and Regional Development	15.8	19.8	27.0	25.7	13.3	18.4		
Sectoral Leadership, Firm Capability, and Regional Development Operational Policy Ministerial Servicing and Crown Entity Monitoring					5.8	9.6		

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
International Business Growth Services				101.7	101.3	104.6	111.0	114.7
Investment Fund Management			2.3	2.3	2.3	2.3	2.3	2.8
Services to Develop Business Capability				11.7	13.8	13.4		
Services to Support Sector Development and Special Events				31.1	32.8	31.9	13.2	13.2
Analysis and Development Services for Firms	19.9	18.2	20.4					
Identification and Coordination of International Market Opportunities	68.9	73.6	80.4					
International Investment Facilitation Services	16.0	15.2	13.6					
Investment Fund Management	2.6	2.3						
Establishment and operation of the Food Innovation Network New Zealand		0.4	13.0	4.0	4.6			
Regional and Sector Development Services	47.2	47.5	31.4					
Standardised Training and Advisory Services	15.2	15.2	11.4					
Film New Zealand	0.8	0.8	0.8	1.1	1.1	1.3	1.3	1.3
Growth Services Fund	5.9							
International Biotechnology Partnerships		0.7						
International Growth Fund		9.8	20.3	25.8	30.0	15.7	27.2	29.3
Large Budget Screen Production Fund	47.8	52.5	127.0	91.7	50.6	40.6	66.8	78.0
Major Events Development Fund	4.5	7.9	8.4	13.5	15.1	10	8.6	14
Management Development Fund	0.3	0.3	0.5	0.2	0.8	0.8	0.8	0.8
Regional and Industry Development Fund	1.8	1	0.6	3.9	1.2	0.8	0.4	
Regional Partnerships and Facilitation	9.3	11.8	4.6	4.6	4.5	4.6		
Sector Strategies and Facilitation	1.5	1.5	1.2	1.2	1.2	1.2	1.0	1.2
Enterprise Development Fund	2.8	0.6						
Market Development Assistance Fund	44.9	40.8						
Enterprise, culture and skills fund	1.6							

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
New Zealand Trade and Enterprise	2.0	0.6	0.1	0.2	0.2	0.2		
Seed Co-investment Fund	13.8	3.0	8.0	7.6	16.2	7.3	8.7	8.3
Venture Investment Fund	33.7	1.0	10.4	13.7	29.3	15	10.7	4.5
Services to Support the Growth and Development of New Zealand Businesses							13.2	13.2
New Zealand's Participation at Expo 2010 Shanghai, China	9.4	26.4	10.6					
3D Digital Graphics Cluster	2	2						
Promotion of New Zealand Associated with the America's Cup			2	19.8	1.7	5.0		
Depreciation on the temporary Rugby World Cup showcase and festival building on Queens Wharf			2	4.9	4.9			
Temporary Rugby World Cup showcase and festival building on Auckland's Queens Wharf			8	1.8				
Rugby World Cup Leverage and Legacy Programmes			5.8	7.7				
Rugby World Cup Free-to-Air Broadcasting Right		0.6	1.6	1				
Rugby World Cup			1.8					
Louis Vuitton Pacific Series	0.8							
Louis Vuitton Trophy Series		3.5						
Stadium Development			27.9					
Purchase of Queen's Wharf, Auckland		20.0						
Negotiation and Completion of Stadium Projects		40.8						
Transformational Initiatives Fund	2.5		4	3				
Total ($million)	**372.5**	**419.5**	**446.3**	**379.5**	**332.0**	**284.3**	**279.5**	**297.2**

Source: New Zealand budget papers, various years.

Table 5 shows that subsidies to the film industry are gathering pace. The film industry is a global subsidy market where some very big countries throw their weight around. Only last year, California doubled its subsidies to its film industry to stop runaway productions. Sooner or later, the New Zealand government will have to accept that it is outgunned.

TABLE 5: FILM INDUSTRY SUBSIDIES, BUDGETS 08/09 TO 15/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
New Zealand Screen Production Incentive Fund	3	11	19	10	29	4		
New Zealand Screen Production Grant - New Zealand							4	42
Large Budget Screen Production Fund	48	52	127	92	51	41	67	78
Total ($million)	**51**	**63**	**146**	**102**	**80**	**44**	**71**	**120**

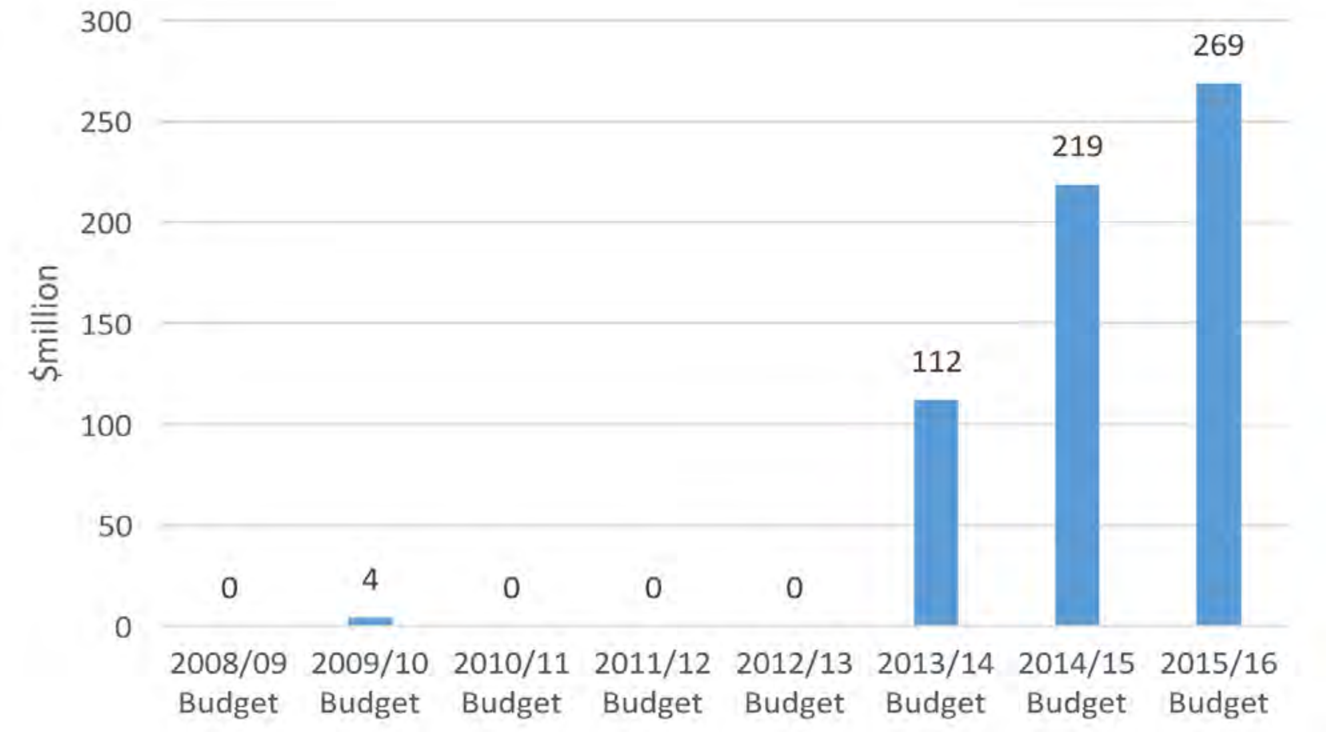
Source: New Zealand budget papers, various years.

5 MINISTER OF SCIENCE AND INNOVATION

5.1 HANDMAIDEN OF THE FUTURE?

Up until the 2013/14 Budget, science and innovation spending was targeted at research that would not find private sponsors because it could not capture the returns from their discoveries – see Figure 6.

Figure 6: Corporate welfare, Vote Science and Innovation, Budgets 08/09 to 15/16



Source: New Zealand budget papers, various years.

Table 6 and figure 6 shows that there is being rapid growth within Vote Science and Innovation of various forms of start-up and commercialisation grants. The taxpayer is now backing particular ideas and firms to move into the marketplace. That is the role of entrepreneurs in the market economy.

TABLE 6: CORPORATE WELFARE, VOTE SCIENCE AND INNOVATION, BUDGETS 08/09 TO 15/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Realising the Benefits of Innovation						10.5	16	
Research and Development Services and Facilities for Business and Industry							25.8	19.5
Building Business Innovation								32.4
Research and Development Facilitation and Promotion Service		4.2						
Repayable Grants for Start-Ups						0.9	14.1	13.7
Research and Development Growth Grants						65.1	119.2	157.6
Targeted Business Research and Development Funding						35.6	119.2	157.6
Total ($million)	**0**	**4.2**	**0**	**0**	**0**	**112.1**	**218.8**	**268.9**

R&D commercialisation grants are a particularly high-risk form of corporate welfare. Standard subsidies have the advantage that the New Zealand government can imitate the successes of overseas governments in terms of subsidising industries that appear to be successful overseas. Most of the knowledge necessary to work out which will be a successful innovation lies in the future and only emerges slowly through trial and error in the marketplace as many products enter the field. Most fail and the few that remain are well-rewarded by the market in profits and market share.

The main argument for R&D grants is the inability of private inventors to obtain the returns from their innovation because competitors immediately copy the new product and the ideas behind the new product. Inventors and innovators will not anticipate a sufficient return to justify investing in the R&D in the first place.

The usual solution to appropriating the returns from innovation are patents and copyrights rather than subsidies. In the case of basic science, where the research output is more likely to not lead to ideas that can be immediately commercialised, the case for subsidies is stronger.

5.2 THE REVISED RATIONALE FOR R&D SUBSIDIES

In the lead up to Budget 2015, there was considerable media attention to an R&D grant by Callaghan Innovation to a subsidiary of Oracle Racing. The Minister of Science and Innovation, Steven Joyce was more than comfortable with foreign-owned companies receiving R&D grants from Callaghan Innovation. His rationale was that:

> *...as the research and development system grows, we get a lot more people, a lot more companies and some very high tech industries growing as a result of it.*

The Minister is happy as long as the R&D industry in New Zealand is larger as a result of R&D subsidies to local and foreign companies as long as they are operating in New Zealand.

When Mr Joyce replied last year (*National Business Review*, 15 October 2014) to the *Monopoly Money* report he had a much narrower policy rationale for R&D subsidies: spillovers to the rest of the economy. As is well known, the private sector may underinvest in R&D because it does not take into account the spillovers to the rest of the economy when deciding the size of their R&D investments. R&D subsidies make sure that more of that R&D is undertaken than is privately profitable to chance.

A leading reason for foreign companies setting up a local branch or subsidiary is to keep things in-house. By operating through a local branch the proprietary technologies, know-how and trade secrets of a foreign company are less likely to spill out the door. Furthermore, any advantage of working for the New Zealand branch or subsidiary of the multinational company and its leading edge R&D can be factored into local wages.

Multinationals do pay more, but there is a large empirical literature showing that the wages at multinationals (and R&D intensive companies) nevertheless adjust for the human capital that employees acquire on the job, especially those skills which are mobile to their next job (or to a start-up).

It is obvious that if a company offers rich opportunities for on-the-job learning and career development, that will factor into wage bargaining. Both the wages that New Zealand knowledge workers would accept and the wages that multinationals need to offer to attract recruits of the quality they seek will adjust. If not, the multinational is leaving money on the table that is easy to pick up by adjusting wages for the training and career development opportunities it is offering.

That is before we consider the use of patents, copyright, licensing and trade secrets law to protect the knowledge capital of the business as well as discoveries through its New Zealand based R&D. In short, Mr Joyce is subsidising spillovers that the multinational companies have every reason to profit from minimising and have straightforward mechanisms for doing so.

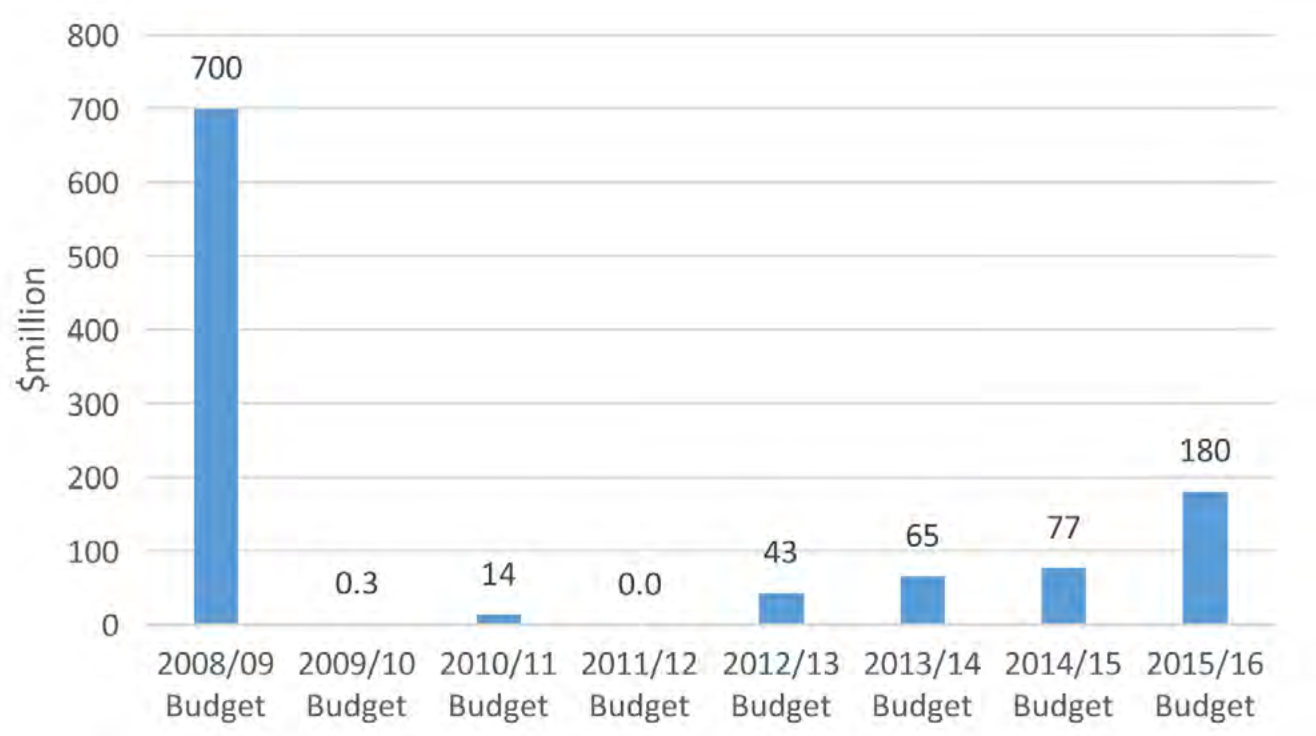
The other rationale Mr Joyce gave last year when responding to *Monopoly Money* was that R&D subsidies help businesses in small, far way New Zealand develop the scale necessary to compete on the world stage. How that criterion applies to Oracle and SAP (another multinational software company which has received a grant) is unclear.

“Mr Joyce is subsidising spillovers that the multinational companies have every reason to profit from minimising and have straightforward mechanisms for doing so.”

6 Minister for Primary Industries

Figure 7 shows that the Government is getting back into the business of subsidising primary industries with the Primary Growth Partnership. The Primary Growth Partnership (PGP) is an R&D grants programme for the primary industry sector. There are 18 PGP programmes underway with a funding commitment from government and from industry combining to $708 million by 2017. The main growth area in agricultural welfare is the use of taxpayer funding of irrigation projects.

Figure 7: Farm welfare, Vote Primary Industries, Budgets 08/09 to 15/16



Source: New Zealand budget papers, various years.

> “the Government is getting back into the business of subsidising primary industries”

TABLE 7: FARM WELFARE, VOTE PRIMARY INDUSTRIES, BUDGETS 08/09 TO 15/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Primary Growth Partnership		0.3	13.5		36.7	55.8	56.9	69.9
Water Storage and Irrigation Investment Proposals					6	9	8.1	10.7
Crown Irrigation Investments Limited							12	99.9
Fast Forward Fund	700							
Total ($million)	**700**	**0.3**	**13.5**		**42.7**	**64.8**	**76.9**	**180.4**

Source: New Zealand budget papers, various years.

> “Irrigation is a business that serves commercial customers. There is no reason why that should not be run on a commercial basis funded by private capital investing in expectation of a profit.”

7 Minister for Communications

The National-led Government is a major investor in broadband infrastructure. Ministers are pretending to know how one of the most dynamic, innovative and unpredictable industries will unfold by using taxpayer money to bring tomorrow forward. The National-led Government has committed $817 million in total to broadband investment. Table 8 shows that these subsidies have developed into a significant item in recent budgets.

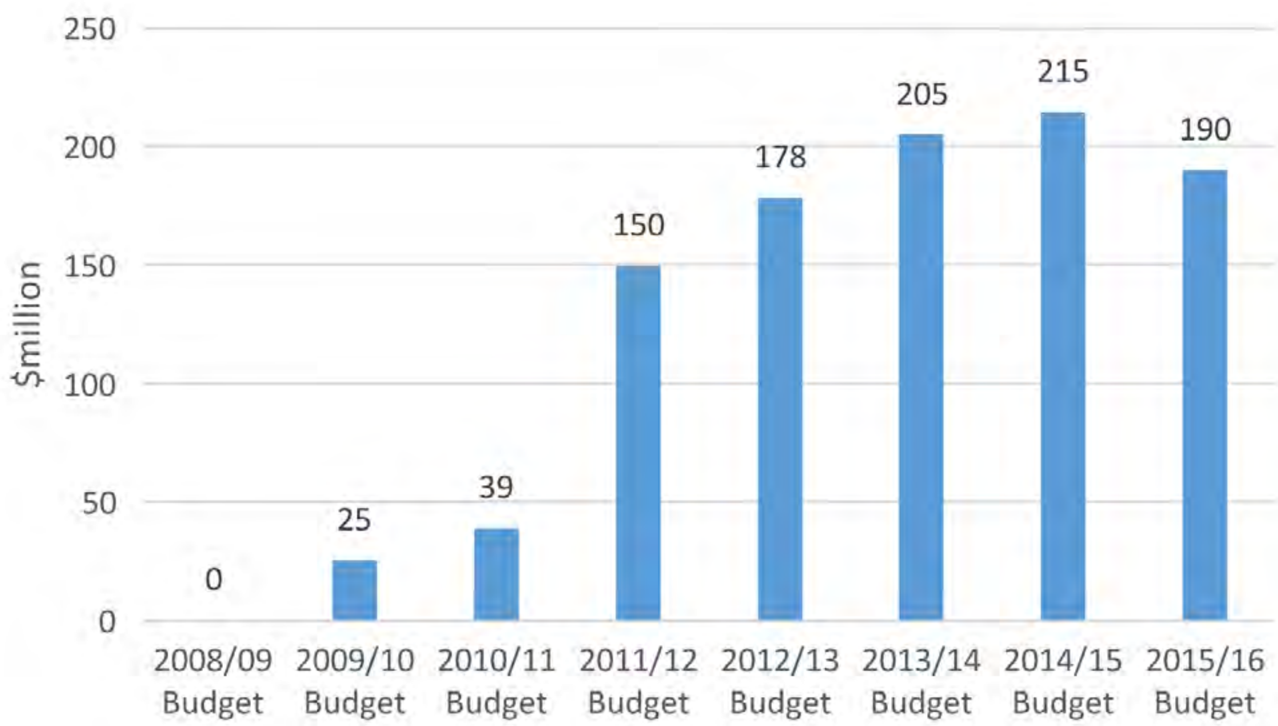
TABLE 8: CORPORATE WELFARE, VOTE COMMUNICATIONS, BUDGETS 08/09 TO 15/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Fibre Drop Costs				4.7	13.4	4.9	4.5	
International Connectivity				2.4				
Broadband Investment (Crown Fibre Holdings Capital Costs)		25.4	39	142.5	165	200	210	190
Total		**25.4**	**39**	**149.6**	**178.4**	**204.9**	**214.5**	**190**

Source: New Zealand budget papers, various years.

These subsidies of $200 million a year for fast broadband – see Figure 8 and Table 8 – are exposing the taxpayer to business risks. The private sector is more than happy to build this broadband network as subcontractors but apparently unwilling to stake their own money. That is a strong indicator of the network's business prospects. The taxpayer appears to be backing a risky investment.

Figure 8: Corporate welfare, Vote Communications, Budgets 08/09 to 15/16



Source: New Zealand budget papers, various years.

8 Minister of Tourism

The Government is particularly generous to the tourism sector in New Zealand – see Table 9.

The Government spends as much on promoting New Zealand as a tourist destination ($113 million) as it does on promoting all other exports through New Zealand Trade and Enterprise.

TABLE 9: CORPORATE WELFARE, VOTE TOURISM, BUDGETS 2008/09 TO 2015/16

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Marketing of New Zealand as a Visitor Destination	75.5	84	93.9	83.9	83.9	113.4	113.3	113.4
Tourism Growth Partnership					1.6	6.3	8	7.4
Marketing New Zealand As a Visitor Destination through Joint Venture Partnerships		5	18.4					
Implementation of the Tourism Strategy		1.7	1.2	0.8				
Tourism Facilities Development Grants		0.3	0.1					
The National Cycleway Fund		0.6	4.6	27.2				
Management Support of the National Cycleway		2.2	1.3	1.1				
New Zealand Cycle Trail Incorporated Seed Funding							0.4	
National Cycleway Fund - Extension					12.1	4.8		
Maintaining the Quality of the Great Rides							2	
Total ($million)	**75.5**	**93.7**	**119**	**113**	**98**	**124.4**	**123.7**	**120.8**

Source: New Zealand budget papers, various years.

In the era of e-commerce, Internet marketing, and online booking, the need for a government tourism promotion service must be weaker than in the past as a factor in destination competiveness. Taxpayers might ask themselves why in the Internet age such an old time business subsidy is necessary.

9 Corporate welfare is increasing – so what?

Corporate welfare increased in the seventh budget of the National-led Government. In Budget 2014 corporate welfare spending was $1.178 billion. This year's budget has $1.344 billion on corporate welfare. Hard questions can be asked about the value for money of these increasing subsidies.

Since 2008 aproximately one-third of corporate welfare has been bailouts for mendicant businesses – old-fashioned bailouts such as for KiwiRail and Solid Energy. Such corporate welfare props up losers. The rest of the corporate welfare is politicians being midwifes of the future. Trying to pick winners and second guess the market and the decisions of investors.

The corporate welfare in the Budget 2015 adds about six percentage points to the company tax rate. The question every taxpayer should ask is whether these corporate indulgences should continue. If the last six percentage points of the company tax rate was renamed a 'business subsidies levy', how many New Zealand businesses would want to pay it rather than being left to develop their own business, no politicians picking winners, all while enjoying a more competitive company tax rate?

> "The corporate welfare in Budget 2015 adds about six percentage points to the company tax rate."

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