



## What does Fiscal Responsibility actually mean?<sup>1</sup>

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PIE Commentary 2025-6<sup>2</sup>

Tayla Forward<sup>3</sup>

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PIE's research centres on analysis of issues around the rising costs of a rapidly ageing population and deteriorating intergenerational equity as the income and wealth distribution widens. Are we preparing adequately by investing 'prudently' today in the real economy and future workforce?

In August 2025, the economy has stalled badly in spite of previously optimistic forecasts of economic activity. Has the pursuit of lower fiscal ratios such as net government debt as a percent of GDP in the name of fiscal responsibility been appropriate? Can storing paper assets in the NZ Super Fund solve the problem? In the light of questions like this, PIE is pleased to republish this important commentary from economics researcher Tayla Forward as a contribution to the ongoing debates about the role of fiscal policy and the meaning of public debt in the macro management of the economy.<sup>4</sup>

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### The context

On 24<sup>th</sup> August, Finance Minister Nicola Willis [accused Labour of "fiscal innumeracy"](#), warning the public to be wary of "a reckless approach to spending", especially while the Green Party is ["making the intellectual running on the left"](#). She chided Chris Hipkins, suggesting his party drifts "closer to [Greens co-leader] Chlöe Swarbrick and her team of vandals", though Labour has yet to release any fiscal plans.

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<sup>1</sup> PIE acknowledges that this commentary was first published in The Post as "Fiscal Responsibility Doesn't Mean What Nicola Willis Thinks It Means." 25<sup>th</sup> August 2025

<sup>2</sup> PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.

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<sup>4</sup> See also PIE Commentary-4 [PC-2025-4 Reflections on the Green's challenge to the fiscal straightjacket](#).

On Monday [Fitch Ratings affirmed New Zealand's AA+ credit rating](#), which underpins a low interest rate on government debt. Willis said Fitch's commentary contained a "warning shot" to opposition parties: "a weakening in the culture of fiscal responsibility would affect creditworthiness", leading to higher interest rates for the government.

Willis clearly aims to manoeuvre Hipkins into a narrower fiscal debate ahead of the election, hoping he will publicly disavow any change in tack from her government's approach. He should not take the bait.

Accusing Labour and the Greens of economic illiteracy is by now a transparently bad-faith retort from the National Party whenever sound economic analysis points to a credible alternative to continuous cuts. But it is Willis who misunderstands fiscal responsibility and threatens New Zealand's creditworthiness.

Her message: debt is dangerous, spending is suspect, and only austere budgets can save us from fiscal ruin.

## **The issue**

This is a dangerously unbalanced consideration of risks. There is no recognition of the benefits of public investment. For Willis, it seems all public money spent is money burned: only ever costly, never beneficial.

Underestimating the benefits of public expenditure means catastrophically underestimating the damage done by cuts. Chronic underinvestment erodes our economic foundations just as surely as excessive debt would. When we fail to invest in education, healthcare, infrastructure, and climate adaptation, that's not responsible – that's reckless.

Consider the absurdity of current fiscal wisdom on resilience. There's a huge buffer built into government fiscal rules to preserve space for debt during shocks – sufficient to handle two simultaneous COVID-19-sized events, or 23 Cyclone Gabrielles at once. In this view, investing in flood resilience or seismic strengthening does direct harm to our "resilience", because it increases debt. Building infrastructure to reduce the severity or frequency of future shocks appears irresponsible, while positioning overseas bankers as our saviours when shocks hit is considered prudent.

Ironically, financial markets understand the value of public expenditure better than the current government. Productive investment is rewarded, not punished, by financial markets.

Debt for productive investments in long-term growth or credible crisis response is viewed favourably by ratings agencies. Debt reflecting an inability or unwillingness to steward a tax system – as the current government is racking up – is not. New Zealand's COVID-19 spending was rewarded with a credit rating *upgrade* because it demonstrated competent crisis response. When Grant Robertson raised the debt ceiling in 2022, telegraphing intent to pursue higher spending and public investment, ratings agencies didn't blink an eye. Clearly it's not the debt level, as Willis would have us believe, but the reason for the debt, and what we get from it, that matters to ratings agencies.

The most serious fiscal risk facing New Zealand is the structural operating deficit – the difference between the government's revenue and expenditure – resulting from paralysis around tax reform. We have a tax system so inadequate it creates persistent deficits, patched over by debt. This is the key vulnerability that could undermine New Zealand's fiscal credibility. This is the source of "bad debt".

The same Fitch report that Willis waves in the face of the opposition issues stark warnings to her government. A future downgrade, Fitch said, would emanate “from a severe housing-market correction or an impairment to household debt-servicing capabilities, for example, from a sharp rise in unemployment”.

The warning around the housing market is a warning about private indebtedness, and our overreliance on residential housing investment. Willis catastrophises about \$9 billion in annual government debt servicing costs, ignoring that private sector debt-servicing costs dwarf this at over \$24 billion in 2024, 10% of households’ disposable incomes.

When government spending goes down, private debt tends to go up. Expenses don’t wait, and when governments abdicate responsibility for delivering public goods and services, households pick up the slack. Private indebtedness looms large in the mind of the ratings agencies because it represents a vulnerability in the financial system, and a heavier burden on households than tax.

The inadequacies in our tax system are not just about quantity. Preferential tax treatment of housing incentivises speculative investment and ramps up financial instability, increasing the chances that the government needs to prop up too-big-to-fail banks during crises. Housing market downturn would quickly mutate into a fiscal shock.

Our vulnerability to elevated unemployment is in part because we rely on the Reserve Bank to engineer a recession whenever inflation heats up. The resulting uptick in unemployment could unravel the financial tension bound up in the housing market. Alternatives include more progressive taxation, which has an “automatic stabilising” effect.

Echoing Fitch, Willis warns, “a weakening in the culture of fiscal responsibility would affect creditworthiness”. A culture of fiscal responsibility begins with the tax system. By refusing to collect adequate revenue from the wealthiest and catastrophising about debt levels instead, while failing to address real economic vulnerabilities, Willis is either deliberately misleading the public or herself stumbling blindly. Either way, she genuinely threatens long-term fiscal sustainability.

Rating agencies value political stability and economic dynamism. Productivity stagnation, brain drain, homelessness, and infrastructure decay are stains on our economic record – slow-burning threats to our fiscal credibility.

Addressing New Zealand’s real economic decline requires more public spending, not less. True fiscal responsibility means ensuring government can deliver the public services that underpin a thriving society. It means recognising that prosperity depends on skilled workers, infrastructure, innovation, social cohesion and climate resilience – areas where public investment makes transformative differences.

As Willis herself put it: “This kind of fiscal innumeracy is dangerous for New Zealand. Every New Zealander will pay the price if a government puts our fiscal reputation at risk.” She’s right about the danger – but wrong about the source. We’re already paying that price, and have been for some time.

### **Feedback and comments to:**

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