

Just do it

**Beat Australia by  
2020**

**Roger Douglas**

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**Dedication**

**To Bevan Burgess  
who taught me so much  
in the field of communications**

**Just do it**

*Until one is committed, there is hesitancy,  
the chance to draw back, always ineffectiveness  
Concerning all acts of initiative (& creation),  
there is one elementary truth – the ignorance  
of which kills countless ideas and splendid plans  
that the moment one definitely commits  
oneself, then Providence moves, too.*

*All sorts of things occur to help one that  
would never otherwise have occurred.*

*A whole stream of events issues from the decision,  
raising in one's favour all manner of unforeseen  
incidents and meetings and material assistance,  
which no man could have dreamed  
would have come his way.*

*Whatever you can do, or dream you can do,  
Begin it. Boldness has genius, power and magic in it. Begin it now.*

**Goethe**

## Foreword

### Policy

This book contains one big idea. If implemented, this idea would lead to:

- GDP per capita higher than Australia by 2025 (see charts for current situation)
- A higher growth rate via higher productivity
- Higher incomes
- Higher education standards
- Better healthcare outcomes
- Less welfare as people become able to provide for themselves
- Higher incomes in retirement and more security
- Lower average taxes and lower marginal tax rates

### Idea

- Between the age of 18 and 65, every New Zealander would be able to earn an income of \$30,000 tax free. This would reduce the amount of tax they pay by \$6,000 thereby increasing their net income in the hand by the same amount.
- This tax free income level of \$30,000 would be increased by an amount that ensured the following extra income on top of the \$6,000:
  - o For a non-working spouse \$5,000.
  - o For dependent children, an extra \$600 per child.

These changes would lead to the following increases in income:

	<b>Increase in income</b>	<b>Tax free income</b>
Single taxpayers (no dependants)	\$ 6,000	\$30,000
Married couple (only one partner works) no children	\$11,000	
Married couple (both working) no children	\$12,000	
Married couple (both working) one child	\$12,600	
Married couple (both working) twp children	\$13,200	
Married couple (both working) three children	\$13,800	
Married couple (one parent working) one child	\$11,600	
Married couple (one parent working) two children	\$12,200	
Married couple (one parent working) three children	\$12,800	
Single parent one child	\$ 6,600	
Single parent two children	\$ 7,200	
Single parent three children	\$ 7,800	

Part of this extra income to be spent on taking out risk insurance (health, accident, sickness and unemployment), the balance to be saved for retirement, in case of a married couple 50/50.

- A tax credit to cover the cost of children's education equal to the cost of public education today would be also made available to parents. This tax credit could be spent at any school parents choose.

### **How would extra income be spent?**

(1) First on risk insurance:

- Accident insurance
- Sickness insurance
- Unemployment insurance
- Healthcare insurance
- Health savings account for out of pocket healthcare costs

(2) Balance to be saved until capital is at least sufficient to provide for individuals' needs in retirement (health insurance and income).

- Paid for by a mix of the following:
  - Fiscal surplus.
  - Transfer of existing Super Fund into individual accounts over the first 5 – 6 years.
  - Savings in government expenditure resulting from the reduction in welfare payments as people move back into the workforce.
  - Savings in government expenditure resulting from the reduction in tertiary education costs as some people decide to keep the \$4,000 made available to them for superannuation rather than spend it on tertiary education (marginal students).
  - Extra government tax revenue resulting from the move back into the workforce of beneficiaries and students.
  - Reduction in unnecessary government expenditure.
  - Reduction in government interest payments (see Government asset ownership – P93-95).
  - Increase in government income direct and indirect via increased growth as a result of increased productivity.
  - Savings in future years' government expenditure in the areas of health and education as a result of dramatic improvements in productivity thereby lowering future cost increases in both sectors in comparison to what is occurring at the moment. Reductions similar to those achieved in Railways, Post Office or other such areas.

The book outlines how these policies can be implemented and the benefits that would flow for New Zealand and individual New Zealanders if this was done.

## **Curing, not simply saying you care**

*“You cannot bring about prosperity by discouraging thrift.*

*You cannot strengthen the weak by weakening the strong.*

*You cannot help the wage earner by pulling down the wage payer.*

*You cannot further the brotherhood of man by encouraging class hatred.*

*You cannot help the poor by destroying the rich.*

*You cannot build character and courage by taking away a man’s initiative and independence.*

*You cannot help men permanently by doing for them what they could and should do for themselves”*

### **Abraham Lincoln**

Thirty eight years ago I remember a youngish politician first getting elected to Parliament under the auspices of the Labour Party.

Like others in that intake he was idealistic; he had a high purpose. He saw that politicians controlled a huge budget that could be used to eliminate poverty. Like others, he and his party declared war on poverty.

The trouble was; poverty won.

He began to see that what had started as an economic rescue package in 1935 during the great depression had become a bureaucratic monster that had deformed every New Zealander’s relationship with the state.

That was a humbling realisation for the politician – particularly as he was no longer young.

That politician was me. And that was what I realised.

### **The state vs the individual**

The journey I made is not unique. When I was 32 we all believed the state could cure poverty – and we were wrong. Only people can cure poverty.

I believed the state could beneficially act as provider for families. We were wrong. Only parents can do that.

When I was young we believed in central planning, in state control. And I can say from personal experience that individuals – ordinary people – anyone reading this book – are a more important and a more reliable guide to what is right than any government can be.

The result of 70 years of heavy government involvement in trying to improve the lives of New Zealanders is that we are no better off than when we started.

Forget the statistics and the official figures: there is a simple human reason for that.

As a nation we have turned over our personal responsibilities to the government.

The state has become husband, father, provider, employer and big brother to hundreds of thousands of New Zealanders, and in the process, our values as a country have been changed profoundly.

We all know this is true. We see the evidence of it all around us every day.

Respect for women and children and old people – you’d think it would have increased with all the programmes in place and the dogma they teach – but look at how women and children and old people are actually treated.

Virtually every retired person is reduced to state dependence in order to survive. We hear about the violence in the home and in the pubs, the statistics of abuse and battery and rape. For developed countries, New Zealand has the second highest figures per head of population for sex crimes.

Is this a consequence of capitalism? Of market forces? Of economic progress? I don’t think so.

Other countries, particularly in Asia, have developed without this sense of social and moral decay.

### **Behaviour has consequences**

I was in a friend’s house and he has a six-year-old and this child has an old-fashioned Snakes and Ladders board game.

On this old-fashioned board there are very strong linkages between values and their consequences. You land on the square marked Dishonesty and you go down the snake to Jail. You land on the square marked Drunkenness and you go down the snake to Violence. Gambling takes you down the snake to Ruin. Idleness leads you down to Poverty.

Conversely, you land on the square marked Thrift and it takes you up a ladder to Wealth. Hard work takes you up to Success. Kindness leads to Friendship.

It’s a reflection of how society has changed that these linkages seem a little naïve. But are they?

Kindness does lead to friendship. Hard work very often does lead to success. Thrift does lead to wealth or something like it. But these ideals, values, aren’t much taught any more.

As a society we don’t have powerful, non-negotiable ideas about morals. That lying, cheating, habitual drunkenness, wanting something for nothing – that these things are wrong.

I want to talk about these values because they are what created this country. We’ve lost sight of them and I believe we need to go back to them.

They are simple ideas, like:

- If you work you will be much better off than if you don’t work.
- If you save you will accumulate wealth.
- If you look after your neighbour, they’ll look after you.

These values seem so simple. And they are. But they are so far away from where we are right now that they seem startling.

This book offers practical solutions to the situation New Zealand faces. These solutions all flow from the premise that there are five prerequisites for major progress.

- A mindset that we will do the right thing for the country irrespective of political outcomes.
- A broad consensus on long-term goals for the nation.

- A reliable programme to achieve those goals.
- Quality people committed to achieving both.
- Assistance to low-income families to enable them to fully participate.

Before I outline my solutions in detail, I start the book with three old papers (Chapters 1 – 3) of mine which I believe help put in context the policies outlined in the rest of the book and explain why a change in policy mix is not a change in principles

## Chapter 1

Is a 1989 strategy paper I submitted (as a backbencher) to the then Prime Minister Geoffrey Palmer and others within the Labour Government of the time on the approach I believed Labour should have adopted for the 1990 election campaign. It sets out many of the views I held at that time most of which I still hold today.

### Setting objectives for an election-winning medium-term Labour strategy 1990

#### Introduction

- The Government's goal is to win a third term in 1990.
- This paper suggests that, to win in 1990, we have to focus voters on what they want to achieve for New Zealand in the next four years.
- We can turn current problems into opportunities, if we define what Labour intends to deliver by 1993, and how we intend to do it.
- A single, measurable, overriding policy objective is suggested as the criterion which integrates a total 4-year programme.
- The paper emphasises fundamental underlying **linkages** between all of the areas which will be key issues in the coming election.
- To ensure policy credibility and success, it suggests a framework based on respect for and exploitation of those basic linkages.
- The exposition reviews how some of those linkages operate in key areas and examines how various policies can reinforce each other.
- The paper is a broad description of an approach to policy which would work successfully in practice and ensure delivery.
- It will be supported by a second paper which spells out detailed objectives for 1990, and key policies needed to achieve them, if it is decided to follow this approach.
- Moreover, the approach suggested would push National further in the direction of Anderton's Party, and increase the space for us.

#### Present voter perception of the Government

- In 1987, Labour won with an increased majority. Our popular support today is half what it was before the last election.
- We are 27% behind a weak Opposition: 65 percent of eligible voters disapprove of our current performance; only 23 percent approve.
- On issues like health, race, unemployment and law and order, perception of our performance is against us by roughly 60:20.

- Criticism of the Government – from the left, centre and right – can be summed up in one sentence: We have lost our way.
- That is the one perception that Jim Anderton, Pat Kelly, Ruth Dyson, Bolger, the Round Table and the public all agree about.
- We are seen as lacking consensus about direction among our MPs, between MPs and the NZLP, and or the Party and the community.
- As a result, we are no longer perceived as having the ability to achieve constructive change on behalf of the nation as a whole.

### **Key issues looming for the 1990 election**

- The key issues for the coming election include unemployment, race, crime, health, education, housing, welfare and the economy.
- We cannot win by seeking short-term answers to those problems over the next three months, or even the next 18 months.
- None of them can be resolved to the satisfaction of the public unless we place them in medium-term context.
- Because the issues are linked fundamentally and voters know it, we cannot win either if we look at each area in isolation.
- Poor parenting, lack of motivation, inadequate skills, alienation, unemployment and delinquency reinforce each other.
- Low income, inadequate housing, poor health, lack of opportunity and lack of economic growth are all part of the same syndrome.

### **What is the task that faces us from now to 1990?**

- The election is about which party voters see as achieving most for them and the country in the three years from 1990 to 1993.
- We have to encourage people to think about where they want to get in the next 3 years, and which party can best get them there.
- Our programme has to be about goals, objectives and dreams – and practical, commonsense delivery within that 3-year timeframe.
- We cannot win by defending the last 5 years. Our performance in total over that time is now seen as confused and unsatisfactory.
- We can win if Labour sets a much better agenda than National for the next 4 years, and is seen to have the conviction needed to deliver it.
- To do that, we must have an active medium-term strategy which unites us as a team, and appeals to a majority of the voters.

- We cannot get it by competing with Anderton. On the contrary, we need to push National closer to him, to give us more space.

#### **What key issue could unite us as a team and appeal to voters?**

- The issues defined on page 2 are central to the election because they react negatively on rich and poor alike across the community.
- Those issues focus around the plight of the disadvantaged and the adverse impact their situation has on the rest of the public.
- Both sides of that equation can be satisfied if we set ourselves one single overriding objective central to Labour philosophy:
- **Real sustainable gains in living standards and opportunity for all New Zealanders, and particularly for the disadvantaged.**
- Within that framework, we can integrate our thinking on growth, investment, jobs, equity, order, security and social harmony.
- If all of our programmes are referred back to that objective, we can act with purpose, conviction and commitment as a Government.

#### **Why gains for the disadvantaged are important to everyone**

- Delivering real gains to disadvantaged people is crucial because that automatically delivers something of value to everyone else.
- Income is obviously important to disadvantaged people, but income in itself is not enough to remedy their situation.
- Their deeper need is for the incentive and the opportunity to make real advances for themselves through their own efforts.
- By helping them to achieve independence and contribute more to society, we transform their future and improve everyone else's.
- Those gains have an important role to play in creating a dynamic growth economy, higher incomes for everyone and a fairer society.
- The alternative is a society with a permanent under-class of alienated people with no stake in prosperity or social harmony.

#### **Political advantages of the suggested Labour objective**

- No other objective has similar power to link economic and social goals in a single, integrated structure of vision and purpose.
- Nothing else offers comparable prospects of creating a united sense of purpose in the parliamentary team and the Party.

- There may be internal arguments within the Labour party about means, but there cannot be any argument about that objective.
- If some conflicts remain about means, they can be tested against capability to deliver on one clearly-stated measurable goal.
- The National Opposition is not capable of generating any comparable sense of purpose, direction, vision or unity.

### **Appeal outside the Labour Party**

- The community as a whole is desperate to see a recovery of growth and the investment needed to develop our future growth potential.
- The social costs of very low growth over a period of decades have damaged the security and well-being of people at every level.
- Those costs hit the disadvantaged harder than anyone else, but their reaction to disadvantage has an impact on everyone.
- The public knows growth is the only way to get sustainable jobs and avoid an ongoing erosion of living standards and wellbeing.
- That necessarily involves a reduction of waste, inefficiency and avoidable burdens on those who create and contribute to growth.
- Inside and outside the Labour Party, we can show that our strategy is tackling the fundamental problems of our society.
- We would not be dealing piecemeal or short-term with symptoms, but attacking the root causes of dissatisfaction at all levels.
- We can focus without shame, guilt or confusion on what we want to deliver to voters across the whole social and political spectrum.

### **What do disadvantaged people want from life?**

- The personal goals of unprivileged people are essentially identical with those of all the rest of the community.
- They want opportunity, security and dignity – fair treatment, productive employment, rising living standards, personal choice.
- They are worse off now than other people because they lack skills, information, motivation and incentives to achievement.
- In their present condition, they are vulnerable to social and economic pressure and find it hard to survive without help.
- If the help we give locks them into dependency, all we do is maintain them in that vulnerability as a permanent condition.

### **How to end that vicious cycle**

- They need access to education, health care, housing and benefits that guard them against emergency, adversity or disability.
- But forced education where they learn nothing, life on a benefit, or unproductive, dead-end jobs simply perpetuate their problems.
- Scope for constructive personal choice is basic to the dignity of human beings. It is just as important to them as it is to us.
- The central feature of disadvantage is, in fact, not just lack of money or housing and so on – it is almost total lack of choice.
- They need the kind of help that puts people on their feet, able to make a contribution and make gains for themselves by doing so.
- Because their motivation is low, they need incentives more than other people, to lift their morale towards personal achievement.
- Equity matters to them not just as individuals, but also to ensure a better life later for their children and grandchildren.

### **Barriers to be overcome**

- Many barriers stand in the way of our objective, but none of these burning problems prevent us from accomplishing a major ongoing advance, provided that we deal with them systematically.
- We need to take time to explain them to the electorate enough to gain their understanding and patience for the approach to be taken, and how it will achieve the objectives of voters.
  - In any economy, resources are limited and scarce. Optimal allocation is critical to make the best use of them, e.g. SOEs.
  - Some privileged classes get more than their fair share at the expense of underprivileged people who get less (e.g. excessive protection of manufacturing).
  - Institutions frequently have vested interests in the existing distribution of wealth and traditional programmes (e.g. state sector reform).
  - Attitudes and understanding can be so conditioned by the past that people find it hard to see the benefits of change (e.g. intervention to benefit special interest groups).
  - Without goals and priorities, strong leadership and good communication, those problems can reduce public confidence (e.g. valuable efficiency gains look like cuts in service).
  - Unstable prices can undermine Government's ability to deliver on objectives (e.g. interest rates, exchange rates).
  - Low rates of investment preclude the economic growth needed to create employment and sustain a healthy welfare system (e.g. an uncompetitive approach forces investment money offshore).

- o Any programme can suffer vicissitudes through economic shocks generated internationally in the world environment (e.g. but the right programme reduces the overall cost of such shocks).
- o Unwavering leadership is necessary to help the public through the time lags between promise and final delivery, otherwise both the time lags and costs increase, destroying consensus.

### **Overcoming barriers to progress**

- The first requirement is to integrate all of our thinking about policy and priorities around our one central Labour objective.
- So far, our own internal conflicts have prevented us from working out agreed goals and determining our bottom line.
- We cannot develop this programme or win the election if we go on evading the issues that are central to our own purpose.
- After that, we rely on clear communication of goals and means to maintain ongoing public understanding and consensus.
- **These proposals should be launched with a communications programme at least as strong and coordinated as the GST effort.**
- We should use an aggressive communications approach to win maximum consensus both within the Party and the total community.

### **General approach to design of supporting policies**

- All these considerations dictate the broad approach needed in developing policies to support our one central policy objective.
- Consistency is fundamental to credibility and public confidence wherever Government programmes have a medium-term context.
- Transparency is essential to be able to monitor our progress and show the public the results which our action is achieving.
- Given a clearly defined goal, **we can be flexible in our choice of means, as long as we advance in the right direction.**
- Our objective is to turn de-motivated people into self-starters. We will not succeed without an appropriate incentive structure.
- One person's privilege is another person's disadvantage – if we protect past privilege, we entrench that disadvantage.
- In ports and shipping alone, sabotage puts an estimated \$600-\$800m penalty per year on export returns and export jobs.
- Where the regulatory environment reinforces privilege and entrenches disadvantage, we need to review it wherever it is.

- Enlarging the effective personal choice for disadvantaged people is central to improving their self esteem and quality of life.

### **Developing specific proposals to support our objective**

- A variety of proposals are made later in this paper, as examples of how we can think our way through all the linkages.
- They do not pretend to be definitive on matters of detail, and are all negotiable among us to support our one basic objective.
- They do demonstrate, however, the way diverse policies in separate areas can support or destroy each other overall.
- We will not be successful in the medium-term if we fail to take account of those interconnections and interrelationships.

### **Disadvantages of defensive strategies**

- The disadvantages of a defensive strategy are amply illustrated by the latest Heylen poll result on the health issue.
- Seventy-four percent of voters disapproved of our performance on health – a key Labour issue – and only 17 percent approved of it.
- That happened because our policies are perceived as cutting health, instead of delivering more care more efficiently.
- The public needs to be told that more health care – not less – can be delivered from current health spending if the Government establishes the right structures and incentives.
- To reinforce the parallel, the public needs to be told time and time again of the gains we won for them by making a comprehensive review of the priorities in state trading organisations.
- Productivity gains of up to 100 percent were made. We can have comparable gains in public hospitals if we make similar changes.
- The potential is there, without additional cost, virtually to eliminate the existing waiting lists for treatment.
- We are not seen as getting health priorities right – merely as inflicting provider rationing on the present inadequate service.

### **Reorienting our own perspective**

- If the Government and the public have fallen into a trap in the last 18 months, it is seeing our problems in static perspective.
- Some of our key “problems” are short-term consequences of actions taken to achieving real economic and social gain for New Zealand.

- They cannot be “remedied” by shortening our focus and trying to find short-term ad hoc solutions that make the “problem” go away.
- If we take that kind of approach, we lose the long-term gain. The only “remedy” is to focus firmly on achieving those gains.
- Our job is to support and facilitate the processes which secure those rewards for all New Zealanders with a minimum of delay.
- Because we have shortened our gaze, we are letting everyone lose sight of the real progress already made, and putting it at risk.
- A National Government under Bolger or Peters will not develop or sustain the initiatives which this Government has set in place.
- They will go back to interest group politics which favours the selected few at the expense of everyone else in the community.
- They will certainly not bother to take the situation of the disadvantaged into constructive account in the total equation.

#### **Winning credit for Labour’s achievements**

- In many fundamental respects, we are now ahead of Australia – not behind them – in progressing towards a reliable growth economy.
- Our current account deficit is 1.9 percent of GDP, theirs 5 percent. Our inflation in the past year was 4.4 percent, theirs 6.6 percent.
- Our net debt/GDP ratio is 30 percent, theirs 33 percent. Our debt servicing ratio is now 14 percent; theirs is 17.7 percent, to give just some examples.
- We are getting no credit because we allowed the public to think the policies which achieved those gains may not be continued.

#### **Source of public uncertainty about our direction**

- Despite adjustment problems, 73 percent of 1987 Labour voters recently told MRL that long-term, Rogernomics was good for New Zealand.
- The Government dismissed the author of those policies, but claims to be continuing them. To the public, that doesn’t make sense.
- The feeling out there is that the author would not have been dismissed unless the Government wanted to change the policies.
- Last July, that perception broke the link between rising economic confidence and support for us. The gap has widened ever since.
- Our responsibility to the country and the Party is actively to restore confidence – not just tell people they should have it.

- The graph describes one of our central problems as a party, but it also defines the greatest opportunity now facing us.
- We can re-establish the link between confidence and government support if we offer credible objectives, means and capability.
- The objective proposed in this paper is credible. We can lay out a four-year plan to achieve it, and unite to accomplish the goal.
- We can promote the objectives, promote the means, and promote our united determination to deliver a measurable central objective.
- We have 15 months or more to show that we are not phoneying our way through like National or Jim Anderton's party.
- Labour has got its act together, and knows exactly where it will take New Zealand by 1993. If you want to get there, vote Labour.
- The following numbered sections spell out some key principles which underpin a successful approach to policies that deliver:

### **1. How economic growth helps the underprivileged**

- All the authorities including the Royal Commission on Social Policy agree that productive work is fundamental in our system.
- Jobs are the foundation of personal and family security. Growth is what safeguards the whole system of social provision.
- Policies that foster growth and share the rewards fairly are the biggest contribution we can make to help disadvantaged people.
- Policies that sacrifice growth prospects to provide short-term palliatives hurt the disadvantaged severely in the longer term.
- As a Labour Government, we should not be ashamed of following the best OECD experience to achieve growth in output and employment.
- It cannot be argued with any credibility whatever in the modern world that the 1930s or 1960s recipes have more to offer people.
- If we try to compete with Anderton in making that argument, the world market will pass its own judgement on our prospects.
- The disadvantaged will suffer more than anyone else in society if those chickens come home to roost, and we could not prevent it.

### **Learning from international experience**

- The key lessons learned by the OECD in the past 20 years about achieving successful structural adjustment for growth include:

- o Protecting particular sectors had profound adverse repercussions on an economy as a whole.
- o Removing distortions benefits the economy, improves control of government spending, reduces pressure on interest rates and improves the conditions for successful adjustment.
- o Individually, micro-economic measures have little effect, but a coherent programme which takes account of all the inter-dependencies is likely to be highly effective.
- o Credibility is crucial. It depends as much on determined implementation and sustained medium-term commitment as on the coherence and perceived equity of the programme.
- o Commitment and credibility are a prerequisite to achieve the substantial changes over time in ingrained attitudes which are essential to a successful final adjustment outcome.

## **2. New Zealand's problems are not unique**

- During the 1970s, most countries experienced increasing economic problems including rising government expenditure and rising debt.
- The almost universal initial response was defensive protection of the industries which were worst-hit by a universal slowdown.
- The experience of those solutions to output and employment problems was universally disappointing. It did not protect jobs.
- The problems of rising debt, a rising burden on the private sector, and falling investment and job prospects were worsened.
- Regardless of political persuasion, governments were forced to seek better resource allocation and use the market to help them.

### **Why growth alone is not enough to achieve high employment**

- Everywhere the process of achieving improved resource allocation put heavy pressure on employment as privileged sectors adjusted.
- The subsequent improvement in economic growth did not, of itself, necessarily bring with it a recovery of growth in employment.
- Unemployment has now fallen to half its 1983 peak in the US, Canada, Japan, Austria, Finland, Norway, Sweden and Switzerland.
- It still remains close to that peak in the major EC countries plus Belgium, Denmark, Ireland, Netherlands, Portugal and Spain.
- Their levels are twice as high as the first group. Australia and New Zealand currently fall roughly between the two groups.
- Whether a recovery of growth brings jobs or not depends a lot on the flexibility or rigidity of a country's labour market.

- Countries with inflexible labour markets suffer higher job losses over longer periods, in response to international economic shock.
- Privileged rigidities in sectors like ports and shipping impact adversely on employment and inflation across the whole economy.
- Without major improvements in construction work practices, New Zealand will not get the investment needed e.g. in forestry.
- A more flexible system would open major new opportunities for disadvantaged people without work, and boost national income.

### **3. How undue rigidity hurts the disadvantaged**

- The disadvantaged suffer much worse than anyone else, as a result of the avoidable costs imposed by rigidity on the economy.
- The burden falls most heavily on part-time workers, females and racial minorities – the most vulnerable people in the job market.
- Those conclusions are endorsed by international experience. If we are serious about our goal, we cannot totally ignore them.
- There are many means of achieving flexibility. It takes very different forms in Japan, the US, Sweden and Switzerland.
- A wide range of choices exists about how to improve flexibility. The precise form is less important than whether it is adequate.
- There is ample room to negotiate about means in New Zealand, if all parties give due weight to considerations of social equity.

### **4. Why the wrong regulatory system increases unemployment**

- Where the expected productivity of a worker is lower than the required statutory minimum wage, the worker cannot get a job.
- In New Zealand, the statutory minimum wage has doubled in 1984-87 while average wages rose by only 40 percent.
- Our minimum wage rose to 50 percent of the average wage – a very high ratio by international standards in comparable countries.
- The intention was to benefit and protect the low-paid, but one result is that many of those people are now unemployable.
- It would be less costly to the state and of more human benefit to them to let them into lower-paid jobs, then top up their wages.
- The opportunity is there to put their foot on the bottom rung of the ladder, give them job experience, and start them climbing.

## **5. How the tax/benefit/housing system can create or destroy jobs**

- The relationship of benefit levels to take-home pay plays a crucial role in incentives to work and to learn work skills.
- If the difference between employment and unemployment is insignificant or negative, no incentive exists to find a job.
- The higher the total cost to employers, compared with after-tax pay, the lower the employment level for any given wage rate.
- Employers will not hire where the total cost to them exceeds the level of productivity they can expect to get from a worker.
- When long-term unemployment erodes skill and motivation, expected productivity can fall below the level of the minimum wage.
- Schemes like Access have a degree of success, but good on-the-job training does more for a worker's dignity, security and skill.

### **Opportunities for a better tax/benefit system in New Zealand**

- The tax benefit system in New Zealand has deficiencies which have been widely discussed inside and outside of Government.
- Lower income people have missed out significantly in the tax changes made by the Government in recent years.
- Margins between workers and those on benefits are inadequate. The system reduces instead of increasing incentives to work.
- An opportunity is wide open to make a quite dramatic difference in favour of disadvantaged and low income working families.
- We can put a reasonable amount of money in their pockets, irrespective of their ability to earn, while encouraging work.
- The fairness and practicability of such a system depends on combining progressive average tax rates with low marginal rates.
- Systems built on that principle benefit the disadvantaged, and encourage investment, savings and initiative at every level.
- We can overcome the problems of the present system, if we are willing to be flexible and to engage in some lateral thinking.

### **Housing assistance**

- Present forms of housing assistance do not provide horizontal equity, and create poverty and dependency traps for people.

- Beneficiaries in state rentals often have a marked advantage over workers with families who rent their accommodation privately.
- They end up tied to their state house, and faced with a significant financial penalty if they move off the benefit.
- That system can create lifetime dependency on the taxpayer which confines the beneficiary to a low income on a permanent basis.
- The objective of assistance should be to help and encourage the disadvantaged into independence and to lift their horizons.
- It should widen their scope for constructive personal choice instead of restricting or eliminating their future options.
- Housing assistance needs to be reviewed in a total tax benefit context to ensure that it does not reinforce disadvantaged.

#### **6. Why international competitiveness helps the disadvantaged**

- Many industrialised countries tried protection initially, to protect traditional or favoured sectors from economic pressure.
- Others used the power of the state instead to promote an expansion of sunrise industries judged to have better prospects.
- Results in both cases have since been judged disappointing, and fell a long way below the expectations of the policy-makers.
- Subsidies distorted competition, blurred price signals, delayed adjustment, and complicated the fiscal tasks of governments.
- Employment trends in declining sectors have not differed much, regardless of the policy option adopted.
- In heavily unionised industries, state aid boosted real wage levels and encouraged the substitution of capital for labour.
- The economy as a whole tended to suffer because unprofitable activities were preserved in areas without comparative advantage.
- Highly diversified industries incapable of significant involvement in international trade were an inevitable outcome.
- New industries promoted in UK and France as “strategic” wound up dependent on state purchasing for their survival.
- In the US, UK, Canada and France, restrictions on Japanese cars added 6-15 percent to car prices, with a minimal effect on employment.

- The cost per job “saved” in the US, depending on industry, ranges from \$100,000 up to as high as \$750,000 in the steel industry.
- The outcome is that some of the highest paid workers in the US are subsidised by other workers who earn much less than they do.
- Jobs are preserved in favoured sectors at the expense of jobs in the rest of the economy, and the net job outcome is negative.

#### **7. International change in direction of policy thrust**

- Internationally, based on experience, the emphasis has moved to reducing market intervention, and bolstering adjustment capacity.
- The favoured means are lower border protection and subsidies, privatisation and deregulation, to boost competitiveness.
- Resources then move to more efficient sectors, macro-economic flexibility improves, and stronger long-term growth is obtained.
- Both workers and management are encouraged to focus more clearly on the factors vital to their survival and future prosperity.
- Speed of adjustment is found to have a major dynamic impact on growth in both output and employment.
- Accumulated losses in jobs and investment are greater where excessive impediments to market forces retard adjustment.
- Where adjustment is swift, long-term unemployment and loss of human skills is minimised, and investment is stimulated.
- Events in countries like France in the past decade show what happens when a nation gets itself significantly out of line with developments and directions at an international level.

#### **8. The issue is not equity OR efficiency: it is equity AND efficiency**

- The government has increasingly allowed opponents to portray it as seeking heartless efficiency at the expense of equity.
- Without efficiency, improved equity is impossible to achieve. Even the existing level of equity comes under increasing threat.
- Waste consumes resources which would otherwise have been available to improve equity levels throughout the community.
- Certainly everyone involved in wasting resources collects a rent, dividend or pay packet – but at the expense of the whole community.
- The elimination of waste necessarily reduces the employment and the pay packets of those who were involved in producing it.

- People as well as money and physical resources are forced to relocate in activities which produce a benefit to the community.
- But it is nonsense to pretend that such a change in the status quo for them is a reduction in the overall levels of equity.
- The interest groups who make that argument are stating a case for gain to them at the expense of everyone else's wellbeing.

#### **9. Why privilege benefits the few at a cost to everyone else**

- We need to be very clearheaded about this. The **benefits** of privilege are concentrated in the hands of well-organised groups.
- Those people make large gains as through state favouritism, and object violently if anyone threatens their "economic rent".
- Moreover, it is a mistake to think that those who benefit from state privilege are all wealthy capitalists or owners of firms.
- Workers and unions in privileged sectors also pick up their share of the rent paid without benefit, by the rest of society.
- The **costs** of privilege are dispersed widely across the total community of consumers and taxpayers, who are not well-organised.
- The price they pay for the privilege of others is not transparent, and frequently very difficult for them to identify.

#### **11. Why improving equity levels makes good political sense**

- The cost of any particular privilege, per consumer or per taxpayer, is unlikely to be critical as an annual payment.
- But the hidden costs of the total privilege system are very large and very damaging to the output and potential of the economy.
- Moreover, as the costs accumulate over time, everyone finally suffers, including even the recipients of the largest privileges.
- But the burden at every stage falls heaviest on the employment and incomes of the most vulnerable and least privileged groups.
- They are even less articulate and less organised than consumers or taxpayers in general and incapable of defending themselves.
- Governments acting on their behalf must recognise that they will be opposed, tooth and claw, by well-organised interest groups.

- Strong leadership, clarity of objectives and priorities, and good communications are crucial in achieving equity gains.
- Otherwise the rhetoric of the interest groups will dominate public understanding, and set the agenda for the Government.
- But the reward from consumers, taxpayers and the underprivileged far outweighs all that, if we are willing to do the job right.

**One example: Improving equity in the public health system**

- The Government has, to a degree, played into the hands of the interest groups in the recent controversies over health.
- We have allowed it to appear that changes in the health system are being driven purely by fiscal and efficiency considerations.
- We are perceived as asking incompetent lay boards advised by self-interested providers to ration health care to our budget.
- We are not seen to be asking ourselves: who should the public health service be benefiting most and what should it deliver?
- The fact of the matter is that the whole public health system exists to serve the purpose of improving equity levels.
- Its particular purpose is to ensure that groups who could not otherwise afford health care have access to the best of care.
- Unless the system is kept at maximum efficiency and gets its priorities right, that care ends up becoming unaffordable.
- At that point, the system as a whole is failing to do the particular job which is its primary duty to us and the public.
- Unless we show clearly that we are using efficiency in the service of equity, we will go on losing by a 74:17 ratio.
- We know from our SOE experience that there are efficiency gains of 30-100% to be had in hospitals, if we structure them better.
- Without those gains, cost will keep rising, and even existing levels of equity will be further eroded in the future.
- Changes in staffing and resource allocation are essential in health – not for negative reasons, but to achieve gains in care.
- This is a positive programme to present to the public, not a negative one. We have to turn such issues right around.

## 12. Why a change in mix is not a change of principle

- We have created a rod for our own back in such areas as health and education, by encouraging people to worship sacred cows that do not exist.
- We do not have a simple system of public provision of healthcare in New Zealand – our system is a mix of public and private care.
- The state plays only a small role in dental care or optometry. It subsidises part costs for doctors and pharmaceuticals.
- It funds all hospital care for some people, and some of it for others, but private provision and payment also play a role.
- If injury is caused by accident, however, the taxpayer picks up the total tab for instant treatment, public or private.
- We have had a mixed system throughout our history, and over time, the ingredients in the mix have been adjusted according to need.
- It serves nobody well if we pretend that we have a total public system, and turn any change of mix into a change of principle.
- That locks us into a position where we are unable to review all the options on merit, for optimum benefit to the disadvantaged.
- It may also deprive us of the opportunity to deliver improvements in health care which would be welcomed by the general community.
- In that case, we may end up delegating health reform to a future government far less competent than we are, to do the job well.

### **Which mix of cash and kind works best?**

- Similar confusions exist, as I see it, about the advantage of provision in kind over provision of the means to afford services.
- It has been argued that a stroke of the pen can wipe out provision based on payment, as we wiped out farm subsidies.
- In that case, why has National Super been so deeply entrenched, and why have benefit levels been so reliable for so long?
- It is arguable that those payments-based systems have been far less prone to erosion of quantity and quality than health care.
- In making those points, I am not seeking to cause controversy. There is one test: **What delivers best on our objectives?**
- We should all be prepared to look at that question on an open-minded basis, and reach responsible collective decisions.

### **13. A better future for Maori People**

- Race relations are an issue that can make or break any political party in the 1990 election campaign. Getting it right is fundamental.
- The Maori issue is deeply interlocked with all other issues of disadvantage at every level. Perceived equity is critical.
- The objective for Maori people must be to open up effective opportunities for them to share fully in the nation's future.
- Moreover, the need is to place them in a position to do so in a self-sustaining way, based on their own skill and initiative.
- That is not simply or even fundamentally a question of righting past wrongs or restoring lost land and fisheries to them.
- Complete justice based on the past is impossible and in attempting it we must take care not to make bitterness a permanent feature of our race relations.
- Justice for Maori people has to be based on what will work best for them and the community in the 21<sup>st</sup> century.
- Their central problem is a lack of the knowledge and skills which are essential to self-esteem and success in the 1990s and beyond
- Unless that deficiency can be remedied, the Maori people will remain at a permanent disadvantage in the 21<sup>st</sup> century.
- Their level of technical, professional and trade skills is even more important to their future than questions of land ownership.
- Granting special privileges to Maori which we withhold from disadvantaged people of other races will not solve our problems.
- On the other hand, the right answers for Maori and for all disadvantaged people will improve rather than impede New Zealand's future progress.
- There are also crucial efficiency issues affecting the control and ownership of Maori assets which have not yet been faced.
- If we continue to ignore them, over time, the Maori people will continue to fall increasingly behind instead of catching up.

### **Government Strategy and the Labour Party**

- The public is absolutely not in the mood right now to elect any government which seems dominated by left-wing union influence.
- If Labour's new candidates in this election increase that influence in the Caucus, there is no way on earth we can win.

- Our Party includes some people whose views would place them in opposition to any electable Government, Labour or otherwise.
- If we let them dominate or seem to dominate our approach to policy, there is no way we can ever get Labour elected.
- Ultimately, we have a choice: we can go to the polls with a winning strategy and profoundly upset some of those people.
- Or we can keep them happy, defeat our own party, and confine Labour permanently to the Opposition benches in the future.
- Those members of the Party also have a choice: they can hang in there with us and win, or choose Jim Anderton and futility.
- Any winning strategy risks losing some of them, but those losses would be more than made up by gains among sensible voters.
- Labour has more to gain by attracting commonsense middle-of-the-road New Zealanders than by holding onto our wild extremists.

### **Conclusion**

- Five years ago, we came to power in a country with problems far more deep-seated and dangerous than any facing us today.
- Instead of despairing or destroying ourselves through internal disagreement over means, we treated them as a major opportunity.
- We implemented programmes designed to go to the root of the country's difficulties, and give lasting benefit to New Zealand.
- We did that for the benefit of the nation as a whole, without fear or favour, regardless of opposition from interest groups.

We can be returned again in 1990 – but only if we can show the same drive, integrity and commitment that we showed then.

## Chapter 2

Is a speech I made in 1988 as Minister of Finance and deals with the issue of race relations in New Zealand, and sets out the views I held in 1988.

### Race relations

This is an important occasion.

I want to seize the opportunity tonight to talk about what I see as New Zealand's top priority if we want to make this country a better place in the 1990s and beyond.

I believe the economy should be the least of your worries. Assuming that nobody throws away the enormous gains we have made in the last four years, the right structure has been set in place. It is going to pay off if we stick with it and finish the job.

Obviously it will take time for unemployment to wind down, politicians, employers, unions, a whole lot of people, can help or hinder that process. But the economy is on the right road, it has a good future, it is moving ahead.

What will make or break this country as a place to live in the 21st century is not the economy. Far more important than that, I believe, is whether we manage to achieve racial harmony, racial co-operation or whether we fall down on that job.

Race relations are obviously a minefield and not one where Ministers of Finance, in the past, had a lot to say. But every one of us - Maori and Pakeha - has a contribution to make for better or for worse, to the future of our race relations.

My job as Minister of Finance revolves round two questions:

- "what does this country have to do to create more wealth for itself?"
- "and how do we share out among us whatever wealth we do manage to create?"

To my mind, they also lie at the heart of the race issue.

As individuals, every one of us plays a role in the nation's wealth through our own productive work, and the income it earns. To do that successfully, we all need the right opportunity, motivation, incentive, and know-how. Otherwise we don't have what it takes to make a positive contribution. That undermines our own personal well-being, and it undermines society.

The Maori people have been through at least four different phases since the first European settlement. Up to roughly 1850, they played a leading role in coastal shipping, farming, flour milling and a lot of other economic activities.

They took to the opportunities offered by European ideas and technology the way a duck takes to water. They were dynamic members of a growing community. From 1850 through to the mid-1890s, a rising European population thought it had better rights to the income involved. Maori fought and lost that battle. European rifles and European diseases pushed them off their land, and out of those activities.

Colonial institutions justified that by classifying Maori as second-class citizens of an inferior race.

From the mid-1890s to the 1940s, however, the Maori people moved into a new era of reconstruction and hope. They produced political leaders who became national figures. They established a viable rural society. It didn't give them big incomes but it had cultural identity, and cultural strength. They had economic independence. It worked pretty well.

New Zealand got a world reputation for good race relations. The Maori people began to thrive again. Their population doubled in that period. It doubled again between 1945 and 1966.

That triggered the next phase. Their rural economy could not give those people a decent standard of living. They were forced, by the thousand, to move into the cities, to look for better things.

That migration broke the ties of young people with their tribes and their own culture. They had none of the work skills that help you in a big city. Neither their parents nor their country schools had given them the right survival gear.

Simultaneously, from the mid-1960s, the New Zealand economy began to fail in its task of healthy job creation. You can read the outcome of the next couple of decades in the statistics on Maori exam results, incomes, unemployment, crime, and social welfare dependency. This time round, the problems were not located somewhere in the rural outback: They were bang in the middle of New Zealand's biggest cities.

We moved into phase four from 1975 on. A lot of Maori started saying "this is too much of a bad thing." They could not accept their fate. Maybe they rediscovered some of the spirit they showed a century ago in their wars against the redcoats. Anyway, they rebelled. They dramatised their situation by undertaking land marches. They started holding Hui to regain their cultural identity and work out an agenda. Some of them banded together in gangs of tough guys.

They examined past grievances. They started using the courts. The extremists said they were the rightful owners of the country and its real name was Aotearoa not New Zealand. One way and another, they showed us that the Maori people were not going to go down for the count and stay down.

Some of the things they said and did were pretty mad, probably just as mad and unfair as what various Europeans used to say and do, back in the 1860s and 1880s. But, in a funny kind of way, the rest of us have some cause to be grateful for that. Nobody wants a future where Maori are confined to slums and ghettos, more prone to disease, worse educated; more imprisoned than anyone else and far less employable. The time had come for us to do something practical to stop the rot.

Now I don't really care whether you want to look at the problem in an altruistic way, or a purely selfish way. We end up with much the same conclusion. If a cure is not found, bad race relations will destroy our ability to co-operate effectively to run a better economy and a better society.

If you want to be strictly selfish, it is a problem that can end up costing New Zealand an arm and a leg. Billions of dollars we could have used productively over the years will be wasted dealing with misery, disease, social welfare bills, court costs, unemployment, the whole mess of social disruption that attends world-wide on neglected and mismanaged racial problems.

It is worth spending thought and spending money to fix the race problem. The difference between that mess and 300,000 Maori people putting their shoulder to the wheel to help lift New Zealand out of the mud is not one we can afford to ignore.

A few very simple things are important. One of them is fairness. Okay, the Maori people have problems. A lot of white families don't have much income or education. Like Maori children, their kids enter the world at a handicap. They deserve a hand just as much to get at least one foot on to the rungs of the social ladder.

Their problem is not different in kind, and often no different in degree from the one Maori families face. They do not deserve to be penalised because their ancestors got here later than Kupe did.

Any government has an equal duty to all of its citizens. In both cases, disadvantaged children deserve something extra from us if that will turn them into satisfied citizens leading constructive lives.

We are starting to see it happen now in the dramatic development of Maori Te Kohanga Reo and in the ever-growing demand for better child-care and pre-school facilities for all our children. Those early years are the most critical years in anyone's life. They are the soundest investment in the education system.

There is a solid research base showing that you get a very high rate of return on quality pre-school provision for disadvantaged children, in particular, when you manage to involve the parents in it, along with the children.

Secondly, we have to recognise it is a waste of money putting disadvantaged children through standard school courses under standard conditions if that is not producing the right outcome for the children. The job of education is to create a setting that encourages children to shine, to achieve, to feel themselves achieving, to learn that they are worth something. You have to set it up so that they can stand tall, on their own terms.

You have to let the minority groups play a large part in the decisions about what shall be done, and how it shall be done. I was involved for a while 13 or 14 years ago in Te Puke O'Tara, a multi-cultural centre planned by the youth of Otara. Those young people taught me three things:

First, those young people themselves wanted to be together. It was their parents, elders and so-called leaders among the Maori, European and Pacific Island communities, not the young people, who wanted separate community centres for each separate race.

Two, such programmes have to be built on self-help and personal esteem. They know if you are conning them, or just trying to humour them. But if you create a situation where they can achieve their ends by their own effort, 99 percent of the problems will go away.

Three, they backed that project because they believed in it. It made them feel important and wanted, in some cases for the first time in their lives.

We had 300 pupils from Hillary College who volunteered to go out into factories and talk about the project, to raise funds. If they can achieve satisfaction and recognition in their own eyes, yours and mine don't really matter. They are on the first rung of the ladder to personal success which satisfies their own standards.

I believe the Picot report will give Maori and Pakeha parents fresh opportunities to see their children get what they need from school, in the future. We are making schools accountable to parents, in a way they never were before for what is done for pupils and to them.

But let me say this: it will not be enough in the future for Maori children to shine solely in Maori subjects. Like the Czechs, the Africans, the Chinese and the Eskimos we all live in one global village. We all depend on a shared international technology. We all have to understand it, to survive and to thrive. There is no way back for any of us to the simplicities of a past era; the only road open is the road ahead.

Better schools will not help those who have already left school. A lot of them, Maori and Pakeha, did not get what they needed to overcome the handicaps of their personal background. They failed in school. They are now failing through lack of motivation, lack of incentive and lack of skill to find a constructive role in the adult world. They do not know how to remedy their own problem.

If society does not move in, a lot of them will be stuck with it for life no matter how many jobs we create in a reformed economy.

Schemes like the Maori access-training programme are not luxuries or frills; they are not there to distract people from the unemployment figures. If we manage them properly, they can get some of those people back into the mainstream, change their life for the better, and avoid a lot of social strife.

It is not easy however, to get good programmes up and running. Past efforts have a patchy history. The basic system is that the government pays money to people with the skill to provide a service to people who need help. In practice, you find that the providers swoop down like vultures and carry off most of the benefit you wanted to give the disadvantaged.

If the providers can keep a fair chunk of the resources for themselves, they tend to think it's a pretty good programme. A lot of altruistic people out there have grown fat over the years on the taxpayer without making much of a visible dent in the plight of the disadvantaged. That usually justifies the providers in coming back to tell you the programme was under-funded, the job needs a lot more money.

When you vote it, they snap up the lion's share again. They get that much fatter; the service is as bad as ever. Provider capture is a disease that rots off our good intentions at the root.

A growing number of people now begin to think the payment should, one way or another, go to the person in need instead of direct to the provider. That person can then make a choice among the services offered by competing providers who would then have to give value for money, or go out of business.

The rich have often said they know how to spend their own money better than the government does. Maybe low-income people can get better value out of government money if they somehow get it, and buy those services for themselves. Power to the people, not power to the bureaucrats or power to the providers has a lot to be said for it.

That is what we are starting to do now, with some of the new programmes that devolve power of decision to Maori institutions at local levels. We are doing it on a basis of full, strict accountability: We will be accountable to government not only for the money they spend, but also for the outcomes they produce.

Maori independence has been devastated, over many years, by badly-designed assistance programmes. They lacked the skills, motivation, opportunity and cultural background to get jobs at the average wage or better.

We did not pour our resources into giving them better preparation for an independent life in 20th century urban society. We poured our resources into giving them handouts, so that there was no need to acquire new skills. Once they were on the benefit, with housing assistance, we arranged the tax benefit system to make sure they stayed there.

Every time they earned an extra dollar by personal effort or initiative, we hit them with effective marginal tax rates higher than the rates paid by the richest people in our society, 48 cents in the dollar, 90 cents in the dollar:

At one stage under National, the government took \$1.12 off some of those people, every time they had the temerity to earn an extra buck for themselves. Then the red-necks who do not understand the vicious way the system works will turn round and tell you: "bloody Maori, too lazy to do anything except live off the taxpayer."

Maori react to positive incentives, just as fast as Bob Jones or Alan Gibbs. The real problem is that a long line of governments forced negative incentives on them and on very large numbers of low-income Pakeha families as well.

This is not a uniquely Maori problem; we all know that. I tackled it head-on last December, but that particular effort came unstuck. So what? That's life. That's politics.

The fundamental fact is we cannot afford to kill off the wish those people all share for personal independence.

The social security system designed by the first Labour Government was intended to help people up, not hold them down. We have to go back to that principle.

I want to deal next with Maori business enterprise and I freely confess that this is a hobbyhorse of mine. A lot of Maori run thriving, successful businesses just as Maori did in the period before 1850, but the Maori people as a whole are behind the rest of us, in their economic development.

It is not good enough for them, or for New Zealand, if they simply match the pace of development in the rest of the economy. Maori enterprise has to go faster than the average for the economy: they have to bridge the gap.

The problems in the way of more rapid development in Maori economic enterprise have been closely studied, and clearly identified, not least by Maori themselves. In part, it comes back to lack of education and lack of experience in the Maori people as a whole.

In part, it relates to traditional Maori social management structures, bearing in mind that large numbers of their enterprises are community operations. Those structures are not always well adapted to business decision-making in a competitive commercial climate.

Successive governments have had a closely related problem trying to manage state trading organisations on a successful, businesslike basis. Experience shows some structures work: they make money. You can invest the profit. You can create jobs. You can make more profit. You get growth in output, employment, and growth in wealth.

Other structures breed inefficiency and waste, no matter how hard the managers try to do a good job. Those organisations lose money perpetually; they become a burden on their owners and the community. They drain wealth, instead of creating it.

But even more important, I think, is the way you look at the object of the whole exercise. It is superficially very tempting to set up business projects for social reasons, to create jobs, subsidise cultural projects, as a vehicle for community aspirations, and so on.

But where social goals are adopted, instead of strictly commercial goals, you rapidly find that the project ends up with a low rate of return. Less income is generated than you could have had - not more income - to invest in future job creation. Ability to pay staff competitive wages is reduced, instead of increased.

Approaches adopted to help the community end up delivering less benefit, not more, to everyone involved. When the relative poverty of the return from the enterprise puts it in danger of collapse, people tend to come to the government for a subsidy to help it get back on its feet. The subsidy gets built into operating costs. It helps pay better wages, maybe, but the project ends up further away than ever from genuine commercial success and the whole community of taxpayers is that much poorer at the end of the day.

That is, in fact, an extreme version of exactly the problem the whole New Zealand economy found itself facing at the end of the Muldoon era. It is not a uniquely Maori problem.

Restoring commercial objectives and competitive efficiency is an extremely painful process. To a lot of people, it looks at first like a backward step. They feel you are throwing the baby out with the bathwater.

The simple fact is, unless you run an efficient operation, and produce what the market wants at the right price, for a profit, you end up without a business.

If Maoridom runs the enterprises of its people that way, they all end up dependent on the rest of the taxpayers for support. If we all run our business that way as a nation, the living standards of the country as a whole keep on going down the gurgler.

There is more social benefit in doing things well than we can ever get by doing them badly, however good our intentions may be. That is what we have been trying to do, in New Zealand, this past four years, to start doing a lot more things well.

We had got into the habit of doing them badly because thinking is a pain, learning is a pain, change is a pain, challenge is a pain. Doing things badly for 20 or 30 years, seemed to be so comfortable until the debt piled up, the bills came in.

Finally, we were faced with the real discomfort, the real accumulated cost, the cost of our own long-term failure to seize on and make use of our opportunities as a nation. That is what the white community is facing today, in its relations with Maori people. It is also what Maori face today, just as acutely, in relation to themselves and their personal past.

Certainly there has been legal theft. There are demonstrable grievances, some of them major grievances. They have to be faced; they have to be settled. They are fundamentally important. They will be settled. But I think we all, every one of us, need to think very hard about the principles on which we want them settled.

Fairness has to be at the heart of any acceptable principle. The question about fairness always is - fairness to whom? Fairness to the whites? Fairness to the Maori? Are those two different fairnesses fully compatible anyway?

Those questions are a bog we can all drown in. I want to suggest to you tonight that there is only one kind of fairness that really matters and that is fairness to the future. The future of this country which we have to share. There is no choice about that. We are bound to it by 150 years of history, which not one of us can reverse. The road back is closed. The only road open is the road ahead.

Our job together is to resolve the problems of the past not on the principles of the past but on a basis that makes the future a country worth living in, for our children and our grandchildren. We are the ancestors of generations to come who will read about us, I hope, in schools better than any we have provided.

They will read and they will judge us, Maori and Pakeha alike, on what we do now to take care of their future interest in the country they inherit from us. Just as we inherited this New Zealand of the 1980s from our ancestors, their gift to us of their achievement and their mistakes.

Fairness to the past is important. None of us can afford to neglect it. But fairness to the future, not the past, is what will make this nation something that deserves celebration, a hundred years from now.

I wish the organisers of the evening the very best for their activity on behalf of 1990 and beyond.

I hope my few remarks tonight endorse the feeling this occasion was designed to dramatise. If we fail to serve the future, we fail in the heart and soul of everything we undertake.

### Chapter 3

Sets out why I believe some of the things I do and how those values can change New Zealand for the better (it's a paper I gave in 1995).

#### What I believe 1995

##### Monopolies breed arrogance

There has been a moral shift over the last 30 years in this country and it is expressed in the moral foundation of the market.

Markets are a good thing. Markets bring opportunity, diversity and wealth to us all.

And monopolies do the opposite. That's the difference in a nutshell. State-run monopolies were the largest feature of the New Zealand economy when we came to power in 1984, and they were the single largest reason why we were headed for third world status.

You don't have to be an economist or a financier to realise why monopolies are almost invariably bad; it's a moral thing.

And the reason is this; the people who run monopolies don't have to please the people who use them.

If you run the railroad as a monopoly you don't have to care whether your customers' goods arrive intact, on time or at all.

If you run a telecommunications system as a monopoly, you don't care whether or not people get hooked up to the service, and you don't care whether they can afford to use the service.

If you run the airline as a monopoly, then it just doesn't matter whether the planes take off on time, whether people want refreshment during the flight, or whether they can afford to fly anywhere.

I remember how recently it was that the terminal at Wellington airport was a chicken shed, more or less. And when visiting dignitaries flew in you always felt slightly embarrassed about it, because it said to people one of three things; that we couldn't afford anything better, or that we didn't have the imagination or skill to building anything better, or we didn't have the courage to demand anything better.

But that's what monopolies do to you. They browbeat you. They tell you to take it or leave it. Under monopolies you're not a customer, you're a troublemaker.

How often do you hear the joke; it would be a wonderful business if it weren't for the customer.

There's truth in that jest. And that's why markets have a moral dimension – because they make the individual important.

*Companies have to care about individuals – otherwise they go broke.  
If they don't care, they don't exist.*

In an open economy companies exert themselves to give you what you want, when you want it, at a price you can afford.

In the last ten years, monopolies have been swept away wholesale, and so have union monopolies over labour – all with very beneficial results.

We are literally spoilt for choice across a whole range of goods and services from motorcars to household furnishings, you name it. Electronic goods, cameras and computers are now cheaper here than they are in Hong Kong. Professional standards in design, technical innovation, staff performance are all far beyond anything we thought possible in the 70s and early 80s.

The question I am going to be asking is this:

*If the effects of doing away with monopolies have been so good with these sort of activities – why shouldn't the same be true for the last remaining big four monopolies that are still dragging this country backwards?*

Why shouldn't we expect the same enormous gains in service, technical innovation and value for money in health, in education, in Social Welfare and in superannuation?

It's only by treating people as individuals that these services will come right. Now, everybody says they're going to make this happen – but when it comes to what they'll actually do, it comes down to giving a whole lot more money, power and resources to the system.

It's not obvious to me that pouring another \$1000 million into health is going to get Mrs Tamati's hip replacement next week instead of next year. but I tell you what, giving her a personal health insurance policy will.

### **Competition makes things work better for people**

We've handed over our individual power in these matters to the State and what I want to ask is – why?

*Why have we as a country given so much of our personal power – and our personal substance – over to politicians?*

Perhaps this is part of the reason.

One of the big fears people have is of making a mistake.

Our fear of making a little mistake which could in fact be easily corrected with little consequences has led us to make one big one.

We've handed over our money and sovereignty to the politicians and in return we've got a health, education, social welfare, and superannuation system that can't deliver.

Why? Because they're monopolies, and monopolies make mistakes like we all do – but the crucial point is they don't have the mechanisms or the incentives to correct them quickly (if at all).

You can see this difference most clearly in agriculture: New Zealand farming is the most successful in the world and it certainly isn't dictated from Wellington.

Innovators are free to discover new ways to fence paddocks, better ways to hang a gate or more productive land uses.

New ideas, when they work, spread through New Zealand agriculture within a season or two. And mistakes (goats, for instance) are quickly eliminated.

That's the essence of how free markets, competition and choice operate.

When the state monopolies run things, they don't expose their ideas to competition, and that has a very real effect on our lives.

So we have a reading programme pushed by advocates through all New Zealand – and it's based on the debatable idea that children should recognise whole words rather than work them out from the letters. And after 20 years we're still debating its effectiveness.

Why is health so expensive? Part of the reason is that some doctors spend \$100,000 on prescription drugs a year and others spend five times that – and we've no means of finding out who is the better doctor.

And, but for a real big mistake that's never been admitted, we could right now have a fund of \$100 billion providing for our elderly – but instead we opted for Muldoon's pay-as-you-go scheme with a contingent liability of \$300 billion.

Interestingly, the only people who learned from that mistake were parliamentarians. They have their own pension funds and as a result any cabinet minister will be capable of retiring with the equivalent of one million dollars in the bank.

### **Social Welfare - The source of so many problems: families at risk**

We've created massive bureaucracies, and when they go the wrong way, they make massive mistakes.

In social policy we see the results of this most obviously because the results are all around us every day and in the newspaper.

Teenage violence, young mothers, welfare dependency, graffiti, disdain for authority – it's all around us.

And here we come to the most important moral aspects of our look at state intervention in society. We have created a system which actively encourages the weaker sides of our characters to take precedence over the better sides.

Many well meaning social welfare organisations and government agencies buy into the victimisation routine that often surrounds this group and provide more and more, to try and fill the bottomless yearning these people have.

Whatever these people do get is never enough. Because the state can only give them money, not what they really need. Many young mothers of 15, 16, 17 only want to be held – instead they become pregnant.

Others want a baby to love them – they bear a child for their own needs and because they feel needy they spend little time talking care of the needs of their own children.

Children raised in this environment show one or more of the following:

- Malnutrition
- No medical care when sick
- A child dependent on neighbours or relatives for food or shelter

It is no wonder that these children feel little remorse when confronted with the unbelievable crimes we now almost take for granted.

- A baby brutally beaten by her parents
- An old woman raped and killed in her own home.
- A teenager gets into an argument at a party, goes home and gets a knife, comes back and kills two people.

The fact that they feel no guilt is why it is so important to attack the source of the problem not the symptoms.

In the social policy area we need to replace existing policies with ones which will enable individual New Zealanders to make their own choices in life, their own mistakes and learn in the process. It is by this way that this country will rediscover the basic tenets of democracy, namely:

- Equal opportunity
- Freedom of expression
- The right to choose
- And the right to determine one's own destiny

The first step is creating a government that exists for the benefit of its citizens rather than one that exists for the benefit of its employees.

Where citizens can choose what to do rather than be told what to do.

### **Mistakes are important**

The process of choice sometimes leads to mistakes – but they will be smaller than the mistakes giant bureaucracies make, and more easily corrected. And in so correcting them, individuals will learn mastery, and enjoy a higher self-image.

They will achieve personal growth, and through a greater sense of responsibility, will learn how hard work increases their personal freedom, and how competence and technical skills give them independence, dignity and respect.

Compare this with the present situation which for many creates all the bad things that flow out of a monopoly:

- Dependence
- Low self-esteem
- Spoilt, demanding social behaviour
- Disabled population, violence, drugs and sex abuse.
- Lack of dignity

In New Zealand today, at least five out of every hundred new families fall into the category called cycle of disadvantaged families. A further 25 percent are 'at risk families'.

In these circumstances we chase after simple solutions that help the symptoms, but do not touch the underlying problem at all.

Some tell us that our salvation lies in teaching` values.

Some say make fathers financially responsible. Others state that poverty must be the problem.

Yet others say education is the key and that teachers must be retrained to teach better. Or that law enforcement needs more resources – the fact is the police simply can't keep up.

The real problem does not lie with education, law enforcement or even dysfunctional families per se.

It rests with how we care for our babies, infants, and young people.

Most thinking New Zealanders know the tragic level of care many of our young New Zealanders are receiving.

What is the cause of these problems? For years New Zealanders have relied on government to find the answers to these questions.

The disease however, continues to grow. The cause is bound up in an area we refuse to talk about; how we raise our children – or at least we refuse to discuss the issues until these children have become totally unreachable. And even then our approach is wrong.

We enable these people to stay as they are. The children fail and we say it is society's fault, and there is a programme to help.

In these circumstances the individual is never allowed to take responsibility for their own actions and to feel the consequences of those actions – that is, the pain that accompanies mistakes in the adult world.

The fact is that many of these individuals must be allowed to fail and to feel the results of their failure. Only when they understand that and want to help themselves will we be able to help them help themselves.

The fact is you can forget solo parent families, the unemployed, poverty and ethnic background – the popular tags used to identify so-called problem families. These are symptoms rather than causes.

The pivotal issue is the quality and nature of the family as a child-rearing unit.

*Studies show that when we look at multi-problem kids, those raised in really chaotic families had risks of severe disturbance 50 times higher than those families that suffered simply from poverty or unemployment.*

Chaotic families manifest themselves in five or six ways: substance abuse, criminal behaviour, psychiatric disorder, multiple partners, violence, and sexual abuse.

So what do we do for this group as a matter of social policy?

- 1) Acknowledge they exist and they are growing rapidly.
  - 2) Recognise if we don't do something about it, it will cripple New Zealand. It is, in a real sense, the cancer within.
  - 3) Recognise that doing something about it helps us all. We are even now paying the cost in terms of police, social welfare, special teachers, probation officers, jails etc.
  - 4) Recognise also that help can only be provided when people have decided to help themselves. So real help has to be in the form of a carrot and a stick. It cannot be all carrot as it is today for those who want to remain dependent – with the stick applying only to those who want to get off dependency.
  - 5) Recognise that today's welfare incentives are all wrong. And while exceptional individuals may rise above the system, people will generally behave as the incentives drive them.
  - 6) Conversely, nice sounding promises which don't have a hope of working are simply lies (and in the social policy area have proved very dangerous lies at that).
- See Chapters 12-15 for my policy prescription to overcome some of the issues raised in this chapter.

## Chapter 4

### Politicians need to know what they stand for

Why am I writing this book?

- Because I believe New Zealand under the right economic and social policies could, by 2020, have gone a long way to catching up with Australia in terms of per capita income.
- Unfortunately however, as things stand today, New Zealand is at a social crossroads and still faces major economic issues because of the current government's mismanagement.
- The fact is that there is still much to be done if we are to recoup previous losses caused by New Zealand being almost the worst economic performer in the OECD for 50 years, up to 2008.
- Despite this, New Zealand's current political parties are once again retreating to a dangerous do nothing approach.
- There is in fact virtually no difference between the existing political parties except in small matters of degree.
  - None of them have clear vision of where New Zealand stands and where it should be heading.
  - All believe in a policy approach where politicians make choices which would best be left to individuals. In other words, none of them are prepared to trust the voter, by giving them the responsibility and dignity of making decisions for themselves.
- No one party has a 10-20 year vision for New Zealand's future and a cohesive well thought out programme to achieve that vision.
- No party is prepared to trust the public, to give the public the opportunity to take responsibility for their own lives.
- No party has any policy which will provide genuine security for the disadvantaged.
- No party has a different approach which makes it stand out from the rest.

### What should we stand for?

- Individual choice and personal responsibility within a supporting framework of social and economic policy.
- Opportunity, security and dignity which come from fair treatment, productive employment, rising living standards and personal choice.
- Less government involvement in the delivery of services to the consumer, but greater concentration on creating an environment where there is choice, competition and diversity.
- Access to a high standard of education for all children.
- Access to a high standard of healthcare for all citizens.

- Security of income in retirement.
- Security to an adequate level of income for all citizens in the event of some adverse event such as sickness, an accident or unemployment.
- Competition as a means of achieving key objectives and goals in areas such as education, health, retirement income and social welfare.
- Consumer power in that there should be no special privileges or assistance of one sector over another.
- Income support policies which have as their objective, the redistribution of income fairly and efficiently.

This means that:

- Assistance should meet the needs of the most disadvantaged.
- Benefit provisions should avoid creating severe disincentives for employment; instead they should assist and reward effort and, in a broader sense, self-help, participation and dignity.
- Social welfare transfers should be carried out efficiently and, in particular, should as much as possible minimise welfare losses, not inhibit economic growth, and contribute to jobs.
- Tax collections and benefit payments should not interfere with people's lives and choices more than absolutely necessary.
- Transfers should be fiscally sound, that is, sustainable.
- A tax system which meets the following goals:
 

The efficient collection of taxes with the least interference in people's lives, fair and equitable treatment, the encouragement of productive jobs and economic growth.
- Control of government expenditure.

We should stand for these things.

**While recognising that:**

- Any programme of reform has to be about goals, objectives and dreams. These must be capable of being delivered within a reasonable timeframe, and by practical, commonsense means and measures.
- The old politics of the economic Left and Right are meaningless – the political landscape has changed. There are new groupings, new divisions. What we have now are internationalists – those who believe in competition and the global economy – and the isolationists – those who still believe in protectionism and the virtual monopoly government supply of many essential products.

- For many New Zealanders, the pain of waking up to 40 years of mismanagement has been significant – financially, emotionally and intellectually. Instinctively, many have turned nostalgically to a past that never was – a past in fact directly responsible for the difficulties many New Zealanders face today. In order to counter this desire to look backwards, a carefully planned 20 year vision of New Zealand’s future is required. This book attempts to provide that vision and what we need to do to achieve it.
- In the final analysis, all the principles, the framework of policy, are not about economic and social theories. They are about and for people. How do you give people a real chance to live successful fulfilling lives that contribute to the country’s economic and social progress?
- The foundation of modern wealth is know-how. The driving forces are technology and information management. We have to match the rest of the world in those areas if we want a better future.
- In any economy, resources are limited and scarce. The challenge is to make the best use of them – a challenge which can only be met if the proper incentives are in place.
- New Zealanders, as a whole, have fallen into the trap over the past fifteen years of looking at the country’s problems in isolation and only in terms of today. They need to widen and lengthen their perspective.
- The purpose of social policy is to assist those in genuine need – too often the present system puts institutions ahead of people.
- The average family on the average income is already paying the full cost of:
  - (1) Providing healthcare for family members
  - (2) Pensions and healthcare in retirement  
and a large share of the cost of:
  - (3) Educating their children

I believe those investments can best be made by New Zealand families, and not by New Zealand’s politicians.
- Government involvement in education is not working. Education standards have not risen and children from low income groups in particular are disadvantaged by the current system. Greater competition, a wider range of education catering for specific needs, and individual choice as to the type of education received will deliver the opportunities too many children are currently denied.
- New Zealand’s present system of providing healthcare is discriminatory, inconsistent and heavily biased in favour of certain forms of treatment. The people who most need care (low income families) are often those with the least access to it.

**In this book I assume that:**

- A satisfactory solution to New Zealand's problems centres around solving the problems of health, housing, education, welfare, the underprivileged and the economy.
- The public can be trusted to understand New Zealand's real situation and what needs to be done to solve its problems.
- The public can and should be told about these problems and the solutions to them. Too often in the past, the public has either been misled or 'protected' from the truth. This is not only unnecessary, it is harmful. The public has a right to know and should be told:
  - o What the problem is and how it arose
  - o What damage it is doing to their own personal interest
  - o What your objectives are in tackling it
  - o How you intend to achieve those objectives
  - o What the costs and benefits of that action will be
  - o Why your approach will work better than other options.
- If this is done, I believe people would be more willing to cooperate with a reform programme when they know where that programme is taking them. How we start to do this is the subject of a number of chapters of this book.

## Chapter 5

### **Why do New Zealand's current crop of politicians almost always take the soft options?**

Given New Zealand's current social and economic problems, why do New Zealand's current crop of politicians invariably take the soft option?

The demise of Don Brash as Leader of the Opposition reminds us once again, that New Zealand politicians and the public alike tend, given the choice, to go for the soft options rather than deal with the real issues which confront the nation. How has New Zealand ended up in this situation?

Since 1988, except for a short period of 18 months in 1991/1992 when Ruth Richardson pushed the reform agenda forward New Zealand has been going backwards, not forwards. This is currently being demonstrated by way of New Zealand's reduced productivity growth rates and huge social problems.

Why for example, has the present Labour government refused to acknowledge the many benefits that flowed from the economic changes made in the 80s? Changes which produced a much higher growth rate during the 90s and early years beyond 2000 than we had seen for decades.

Why is it that both National 1993-1999 and Labour 2000-2008 preferred to put their own short-term political interests ahead of the interests of the public and the nation?

Why have they in government, held reform to the absolute minimum? Was it merely to enable them to scrape through a year or two at a time while ignoring the future?

Why is it that we are still running the country on intellectual capital that is now 25 years old? Is it true that thinking (post Brash) is now regarded by both parties as an embarrassment, and not just within the government?

This flight from constructive analysis is, and will be, frightening in its repercussions. We all know from experience that there are long time-lags between implementation of reform and when the public sees the benefits. It took 8-10 years to see the benefits of the reforms undertaken between 1984-1988. Likewise, we are only now starting to see the problems (drop in productivity rates) resulting from poor policy development and implementation since 1993.

Why is it that almost all of today's politicians in New Zealand close their minds to the need for further structural reform (so clearly needed in areas such as education, health and welfare)?

The answer I'm afraid is painfully simple – it is because they believe that decisive action (by government) or clear policy positions (by the opposition) will inevitably bring political calamity upon them.

The result is that New Zealand as a country is drifting closer and closer to another crisis, social policy outcomes in education and healthcare are but two examples.

How can the current crop of politicians bear to sit by and see this happen? Easily I fear to say. In the case of the current government they have persuaded themselves that action anytime soon would give the advantage to their political opponent at the next elections. They have convinced themselves that this stance is justified by pretending that their National Party opponents are deceitful and interested only in their own gain, not the country's wellbeing (as if they are).

In the case of the opposition National Party, they have convinced themselves that the current Labour government is destroying the country and that this fact justifies them saying anything that might help them become the government, even if it means locking themselves into positions which will make it impossible for them in government to take the actions needed to solve New Zealand's problems.

In other words, both parties are avoiding the real problems New Zealand faces and intend to solve the dilemma they are creating by offering electoral bribes at the next election to distract voters' attention away from the real problems the country faces.

Power politics has become the grand obsession.

The public deep down understand this and have a deep feeling of disgust (50 percent+) as a result. There is a profound revulsion out there against self-serving politicians who consistently put their own political interests ahead of the national good.

In desperation up to 40% of the voting public switch from party to party in the hope they will somehow break the existing political gridlock. Not a particularly enlightened approach

The news media in New Zealand taken as a whole is, in this situation, no help whatsoever, in fact, impossible as it might seem, they may be even worse than the political parties themselves. The news media, contrary to their own view of themselves, continuously condition the public and the politicians to regard change as obnoxious in principle. They have become the true voice of conservatism in New Zealand.

## **Chapter 6**

### **Moving New Zealand forward**

How then do we turn all of this around? How do we once again start to move forward in this country?

As I see it, there are five prerequisites for major progress:

- A mindset that we will do the right thing for the country irrespective of political outcomes.
- A broad consensus on long-term goals for the nation.
- A reliable programme to achieve these goals.
- Quality people committed to achieving those long-term goals and implementing programmes to achieve them.
- Assistance to low-income families to enable them to fully participate.

### **Doing the right thing**

The problem with compromise policies and that is all we are being offered today is simple, they do not produce the right outcomes for the public at the end of the day.

As a result, costs and distortions start to accumulate and governments then resort to misrepresenting and/or suppressing vital information about future prospects, in order to warp the judgement of the voting public.

Too often, they end up locking themselves and the public into their own nonsense.

On the other hand, going for quality decisions means choosing those actions that deliver most benefit to the nation in the medium-term instead of choosing more now for supposed political gain, at the cost of less later.

In going for quality decisions, we need to put aside traditional preconceptions or prejudices about means and review all the options available and select the means most likely to achieve the chosen goals.

If we look closely at the main policy decisions of the past 25 years, one thing above everything else stands out. Wherever the New Zealand government has implemented uncompromised quality policies, voters today give a satisfactory rating to those decisions. Wherever the New Zealand government failed to go the whole way for quality decisions (social policy areas in particular) during this period, the problems have increased and voter dissatisfaction has reached breaking point.

Clearly governments need the guts to implement quality decisions, take the pain upfront instead of postponing it, and be judged on the basis of the good outcomes they deliver.

## Goals are primary

Until we form some coherent view about our destination, it is pointless to plague ourselves with questions about how to get there.

What then are the factors that people consider critical for them and their families to help them make the most of their lives?

My suggested list is quite simple:

Opportunity (e.g. access to a high quality education)

Security (e.g. access to a decent income in retirement)

Self-worth (an opportunity to contribute)

Independence (the ability to provide for self and family)

Initiative (e.g. the ability to invest and be rewarded if successful)

Social responsibility

A system fair to self and others.

In one sense, all the items on the list can be regarded as clichés. But that does not alter the fact that they are the qualities most fundamental to a sense of human wellbeing. So, how do we make these goals the foundation of a serious programme to transform New Zealand?

The answer is quite simple. We should start by asking ourselves what this country would look like if 25 years from now we could lead the world in those seven personal and social goals. It opens up a vision totally unlike anything currently being offered in New Zealand by large or small parties alike.

It also has the additional virtue that the economic and social policies needed to achieve those goals can be reliably defined.

To achieve those goals we would need to lead the world in:

- High growth rates via high productivity levels
- High quality education
- High quality healthcare
- A welfare support system that helps people to help themselves
- Security in retirement
- Low tax rates
- Low government debt
- A highly competitive marketplace (including welfare/insurance areas)
- Low levels of crime
- High quality government expenditure – no waste

The current high level of disillusionment with politicians springs precisely from a realisation that no party is offering to deliver such a range of policies.

### **Reliable programme to achieve those goals**

Once we have a clear vision of the desirable objectives, we are free to think in new and fresh ways. This book attempts to do exactly that.

For example – it is taken for granted by all the major parties; Labour, National, Greens, United, and NZ First that government schools are the only means to provide universal service. So ‘free’ state provision came to be seen as the primary objective of the exercise, not simply one of several means available to achieve those goals.

Once a high quality education for all is made the central focus again, there is more than one way to get universal education of quality. In one alternative scenario, the state, instead of building schools and paying teachers, would simply ensure that parents had the money to buy a good education for their children.

Wellington bureaucrats would be replaced by an Education Authority, education’s equivalent of the Reserve Bank.

**See Chapters 10 and 11 on education for details of how such a policy might work.**

### **Quality people committed to achieve both**

Policy starts with people. It emerges from the quality of their observations, knowledge, analysis, imagination and ability to think laterally to develop a wider range of options.

**For example** – in education, the role of quality teachers would increase while the role of the bureaucrats in Wellington would decrease. More parental involvement would ensure teachers focus is on the needs of the child and not the demands of Wellington bureaucrats.

An open marketplace in education with the opportunities that would create would ensure more and more quality people entered the profession.

### **Assistance to low-income people**

Any programme of change will threaten and frighten those who do not have the means to cope with it, therefore, a major objective of any process of change must be to show beyond doubt that low-income people are going to be helped to make the adjustment.

For example – in the education area, the government role would be to ensure that all parents had the money to buy a high quality education for their children.

As a result, parents would have much more influence over the quality of education being provided to their children than they do today. Most parents care a great deal more than Wellington educational bureaucrats ever will about the education of their children.

Teachers, freed from having to comply every day with Wellington bureaucrats’ demands, would become more innovative and focused on ensuring quality outcomes for all of their pupils. Communication between teachers and parents would increase dramatically.

## Summary

In the end, it is over to New Zealanders if they want this country to move forward once again and solve our glaring social and economic problems.

The fact is that too many people are sitting on the sidelines complaining. People need to see past their fear and look unflinchingly at the problems. A solution can only occur if enough people with guts and vision are willing to accept the tasks involved in doing something worthwhile for their country in the political arena.

An influx of quality people into National, Labour and other parties is likely to be the best and fastest way to transform the present situation. Another option would be to elect a number of highly qualified people as independents in key electorates. An approach of this nature would not impact on the number of seats held by National or Labour because they will still get the party votes which determine the number of seats they end up with. Some existing MP's however might become list MP's instead of electorate MP's in these circumstances.

An influx of a number of quality people into Parliament however would only help if they entered Parliament to make a difference to the nation's future, no matter what the political consequences might be for them.

Politicians need to ask and answer the following questions:

What is in the best interest of the nation?

Then and only then should they ask themselves:

How do I sell this programme?

Rather than what the current politicians tend to do. Their question is:

How do I please the people?

Clearly this question does not involve facing up to the hard questions.

Its aim is to be in perpetual power.

## Chapter 7

### The big policy idea

#### Idea

Every adult New Zealander (18-65) would be entitled to earn a tax free income which would enable them to purchase for themselves in an open marketplace, all their basic needs (including risk insurance such as health, accident, sickness, unemployment, education for their children and also be able to save for their retirement.

To the extent their income might fall short of their basic needs, a tax credit would generally be available to make up the shortfall.

#### Outcomes flowing from idea

- Tax churning (you giving money to the government and then the government giving it back to you in the form of inferior goods) would become a thing of the past.
- A dramatic reduction in tax levels from around 40 percent of GDP to less than 20 percent (See Chapter 20).
- Higher quality education (see Chapters 10 & 11).
- Higher quality healthcare (see Chapters 8 & 9).
- A more efficient welfare system (see Chapters 12, 13, 14, 15).
- Better levels of income in retirement (see Chapters 16 & 17).
- Higher growth and therefore higher incomes.
- Lower levels of general government expenditure (See Chapters 19 & 20).
- Lower crime as people feel better about themselves.
- Poverty traps eliminated.
- Major innovation in areas such as education, healthcare and welfare.

See also Just do it – policy detail pages 3 and 4

## Chapter 8

### A healthier New Zealand

#### Principle

All New Zealanders have a right to decent healthcare, not one that puts them at risk.

#### Today's situation

- Quite good for those who can afford private healthcare coverage.
- Producer's income depends less on service to patients than on meeting third party reimbursement requirements.
- Limited choice – individuals mainly have to take what is provided.
- Poor outcomes – lack of fairness resulting in long waiting lists.
- Worst outcomes for those living in poorest areas.
- Major staffing problems.
- Bureaucratic.
- Quality standards often poor.
- Falling behind other developed countries.
- Lack of accountability.
- Lack of innovation
- Lack of incentive for consumer to acquire knowledge.
- Rapid increases in costs – cost plus system applies.
- Rationing of technology and waste and inefficiency.
- Extra resources have not been matched by higher productivity.
- A caring not curing approach.
- Health has become political, even where it is not political.

All of this despite:

- Huge increases in expenditure.

#### Six key principles to solving this situation

##### One: Equality

Healthcare services that are there when you need them.

##### Two: Patient first

Ready access to healthcare services that are more accessible and more convenient for all patients.

**Three: Open marketplace**

Ensure that people can choose among competing healthcare products and policies in order to select the type of coverage best suited to their individual and family needs.

**Four: Doctors and Nurses**

The role of doctors and nurses and the opportunities open to them should be increased while the role of the Ministry of Health bureaucrats in Wellington would be replaced by a Health Authority (Health's equivalent of the Reserve Bank)

**Five: Quality**

Healthcare services that provide real quality to consumers as a result of more innovation and better use of technology.

**Six: Hospitals**

That compete in the business of healthcare delivery by improving quality and lowering real prices.

**A commonsense approach to healthcare would involve the following:**

- Patients having the right to choose how they interact with doctors and hospitals not Wellington.
- Patients having the right to know.
- Recognise that more government and more bureaucrats are not the answer for better healthcare. The answer lies in doctors, nurses and quality managers replacing bureaucrats at the centre of health.
- Increased competition in the provision of healthcare leading to reduced prices and improved quality.
- De-politicising decision on the provision of funding of healthcare.
- Elimination of non-price rationing of health services leading to the virtual elimination of waiting times for elective treatments.
- Security against large and unpredictable health costs.
- Innovation with greater flexibility and diversity of services.
- Greater consumer choice.
- Optimal insurance agreements.
- Better allocation of resources.
- Production of relevant information on health services.
- Patients who are protected from Wellington intrusions.

### **Policy approach – as a result of implementing the big idea**

- A reduction in tax paid equivalent to what the government currently spends on people's Healthcare has been provided via the tax free income threshold.
- Families and individuals spend the extra money they now have in their pocket direct with the supplier or with any approved healthcare insurer they wish to.
- As a result, patients rather than the government have become the main buyers of healthcare with the opportunity to compare insurance plans and to make decisions.
- Tax reductions are inflation-proofed.
- Insurance companies and other healthcare insurance providers have their policies approved\* by the Healthcare Authority in the same way Reserve bank licenses banks.  
\*Ensures policies meet minimum standards and insurance companies etc meet minimum financial requirements.
- The Healthcare Authority would establish guidelines of standards that hospitals would be expected to reach.
- All hospitals would be assessed against these guidelines.
- Doctors help patients make informed decisions (rather than serve the government).
- Government role is now to ensure that all New Zealanders have the money to buy their own healthcare coverage.
- Hospitals compete in the business of delivering high quality healthcare at lower prices.

### **The objective of the big idea is:**

To raise healthcare outcomes dramatically over a 5-10 year period.

The next chapter examines what New Zealand healthcare will look like in 2020 following the introduction of above policy.

## Chapter 9

### Health 2020

This chapter looks at what healthcare would look like in 2020 on the assumption New Zealand introduced the policies outlined in previous chapter. (The big idea)

- Politicians' role in the healthcare field is no greater than it is in any other industry apart from ensuring consumers have the money to purchase their needs.
- The healthcare bureaucracy of 2008 in Wellington has been replaced by a Healthcare Authority which employs less than 20 percent of those employed by the old Health Department, contracting out some of the services previously provided by the old Health Department.
- Productivity within the sector has risen by more than 80 percent since 2008 on the back of improved incentives, competitive markets and prices.
- Competition between managed care organisations and insurers has raised quality, lowered costs and ensured diversity of choice not imagined possible in 2008.
- Health is like every other business with new providers entering all the time and others exiting. Competition is the norm via market based institutions, including government and community.
- Consumers are now spending their own money to:
  - A) Buy catastrophic (low probability but high cost events) health cover
  - B) Pay for day-to-day health costs (e.g. visits to doctor)
- Providers' income is now dependent on the quality of the service they provide their patients.
- Wide consumer choice available to all.
- Innovation and technological change are now the norm and are used to improve quality and lower costs.
- Providers continually advertise their wide diversity of products to attract and retain customers, emphasising both quality and price. Information is now freely available to enable consumers to decide which plan to buy.
- Experts in the industry produce books that explain the options available and then rank those options relating to quality and price. This makes choice much easier for consumers.
- Risk takers (e.g. insurance companies and managed care organisations) often tender work out on the basis of price and quality.
- Surgeons build up their own teams of nurses and other specialists and rent theatre space and hospital beds (e.g. a ward) in order to be able to function with confidence. They do this either as individual doctors owning their own business or in partnership with others.
- Consumers have received substantial tax reductions to enable them to buy health care on their own behalf or on behalf of their family.

- Individual consumers are now the key players in health as a result of their buying power, large hospital institutions compete with one another in the business of health care delivery.
- Health savings plans along with superannuation savings plans are readily available to all New Zealanders as a result of tax reductions available for doing so. Those electing not to do so pay higher taxes.
- Health insurance policies are more and more tailored to individual and family needs.
- Because most areas of surgery are now tendered it is possible for consumers to know exactly what it will cost.
- Service to rural and other under-served areas has improved dramatically because of the greater freedom and flexibility now available for them to make their own decisions about how to use the scarce resources available to them. Local communities in these areas are doing a far better job than the politicians ever did.
- Use of a cost benefit standards for health and safety regulatory agencies has eliminated a huge amount of waste.
- The wide use of educational institutions as part of a wider prevention healthcare programme introduced by the private sector risk takers has helped to lower costs dramatically amongst higher risk groups by reducing the rate of preventable childhood diseases.
- Healthcare unit costs fell rapidly over the 10 years to 2020 while total costs are in line with inflation and growth.
- Because healthcare premiums recognise lifestyle factors such as - what we eat, what we drink, whether we smoke, whether we exercise regularly, changes in behaviour are clearly apparent. Financial incentives have been shown to work.
- Normally uninsurable people with known expensive to treat health problems are dealt with via fair premiums within the marketplace - with extra government help being provided to those in need.
- Long-term nursing care for the elderly now takes a variety of forms with insurance companies making payments to people not nursing homes. Individuals now only enter nursing homes where the service is worth the price offered and other alternatives are not available.
- Insurance policies are readily available to cover expensive medical technologies both existing and anticipated new procedures.
- Healthcare rationing is now largely as a result of patient choice, not government dictated. Patients now consult their doctors as to the desirable level of coverage.
- Unnecessary surgery has declined dramatically as a result of information now available as to the costs and benefits of various medical procedures.
- Administrative costs have fallen dramatically as a result of the move to a market-based system rather than a bureaucratic one.

Despite the profit motive today in health, the results have been the same as they were with Railways, Post Office, Ports and Telecommunications. Prices are down; quality of service is up and services levels expanded and privatised. What does the patient need is now the normal question asked and answered by competing providers.

## Chapter 10

### Education: a smarter New Zealand

#### Principle

All New Zealanders have a right to a decent education, not one that breeds failure.

#### Today's situation:

- Quite good for academically able, not so for the rest.
- Limited choice.
- Many children achieve poor qualifications.
- Low teacher morale.
- Bureaucratic.
- Standards falling.
- Poor discipline in many secondary schools.
- Many children don't learn the basics.
- Worst schools in poorest areas.
- Overtaken by other developed countries.

#### All of this despite:

- Rising expenditure

#### Six key principles to solving this situation:

##### One: Equality

Every child regardless of family income should have the right to a quality education. No child should be left behind just because of:

- where he or she lives or
- because of his or her parents' financial position

##### Two: Child - Central

Education is first, last and always about children, it is not about government or bureaucrats.

##### Three: Parental Involvement

We need to increase the role of parents and decrease the role of Wellington. Parents have the right to send their children to the school of their choice. After all, it is their money, their children and their future.

##### Four: Teachers

The role of teachers and the opportunities open to them should be increased while the role of the Ministry of Education bureaucrats in Wellington should be replaced by an Education Authority (education's equivalent of the Reserve Bank).

**Five: Open marketplace**

Schools like any business should be responsible for managing their own affairs within the laws of New Zealand that apply to them. Regulatory issues would be dealt with by the Education Authority.

**Six: Safety**

Children have the right to a violence free, drug free environment. Children who are afraid will not learn.

**Major disciplinary problems:****1940s**

Running in halls  
Littering  
Chewing gum  
Cutting in line  
Talking out of turn

**2008**

Drug use  
Pregnancy  
Suicide  
Assault  
Robbery

**How do we bring these principles into being?****A commonsense approach to education would involve the following:**

- Support those educational approaches that work and either fix or end those that have so clearly failed.
- An educational system that teaches children how to think and how to succeed now and into the future.
- An educational system that teaches our children right from wrong, one that teaches them respect, and decency.
- Allowing more money to flow into the classroom and not the bloated bureaucracy in Wellington.
- Recognise that it is more important who spends our educational dollar than how much we spend each year.
- Recognise that more government and more bureaucrats are not the answer for better education. The answer lies in teachers replacing bureaucrats at the centre of education and more parental involvement. We must search for every reform proposal that does this.

**Policy approach under the big idea plan:**

- An opportunity scholarship equivalent to what the government currently spends on children's education would be provided, via the tax system to parents or by way of direct payment by the government to the school of the parents' choice.
- Parents would be able to spend the scholarship at any approved school they wish, public, independent, non-profit, for-profit.
- If they have any part of their yearly scholarship left, that scholarship would be held in a special account. The amount in the account could be spent by them at any time on the child including university education.

- Scholarships would be inflation proofed.
- Schools would be licensed by the Education Authority in the same way the Reserve Bank licenses banks. Evidence that parents wished to send their children to a particular school would be clear evidence that the school should be licensed except in extreme circumstances.
- Schools could be of any size e.g. a sole teacher school or a chain of secondary schools.
- Schools, like any business, would be responsible for managing their own affairs within the laws of New Zealand including any special educational regulations, laid down by the Education Authority.
- The Education Authority would establish guidelines of expected standards to be reached at various age levels (similar to inflation targets of Reserve Bank).
- All schools would be assessed against those guidelines based on results for schools in similar socio economic areas.
- A move back to basics as a standard requirement of the curriculum.

### **Objective of programme**

- To raise educational outcomes dramatically over 5-10 years.

### **How then would it work in practice?**

#### **Let's take an example:**

Mum from wherever has four kids doing badly. She sees the headmaster, does he change anything? Under the present system – no. He works for the state; he's paid by the state; he has to satisfy the state system, not what mum wants.

However, under the proposed system all this would change.

Mum has \$30,000 to spend (\$7,500 each). Can the head get away with soothing noises? No, suddenly mum counts for something, the head does not want her going anywhere else.

He also knows that if the school down the road can earn a better track record teaching those kids, it will get the \$30,000.

Result – the headmaster will be falling over himself to find new ways of getting those kids to learn something of importance to them and make progress at his school.

Mum doesn't need to be an educational genius to produce dramatic improvement. All she needs is the money, then the school will do the work for her.

If she's not happy, she can talk to the school down the road and see what they are prepared to offer to earn an extra \$30,000 a year.

And you don't need one extra cent to give control of that money to her because that's what the state is spending right now.

All you do is change the recipient. You give it to her, not the school and all of a sudden, the school has to earn it on merit performance.

Overnight, that mother feels rich. She has money in her child's education fund. She counts for something. She cares and caring can get results.

She is an integral part of the dynamics of a society designed to create opportunity for her children, not a bystander in the system.

Mum-power efficiently replaces a whole army of education bureaucrats.

Next chapter will examine what New Zealand education would look like in 2020 following the introduction of the above policy.

## Chapter 11

### Education 2020

This chapter looks at what education would look like in 2020 on the assumption New Zealand introduced the policies outlined in earlier chapter.

- Politicians' role in the education field is no greater than it is in any other industry.
- Productivity and the quality of education have risen dramatically on the back of improved incentives, private ownership, competitive markets, and prices.
- Competition between schools and universities is now the norm leading to continuous improvements in standards by way of greater efficiency, improved use of resources and improved approaches to product offerings.
- Education is like every other business area in New Zealand with new people entering all the time and others exiting. Successful schools do so through a variety of methods - quality of teaching, service to parents, price, range of subjects and activities offered.
- As an outcome of competition, a number of new schools have been established throughout New Zealand that concentrate almost solely on children who had been previously regarded as disadvantaged and/or troublesome. The results in most cases have been nothing short of spectacular on the back of making those children feel important and having confidence in themselves.
- Schools seek to differentiate themselves in a number of ways. A recent advertisement read as follows -
 

“the average reading age of an 8 year old at our school was that of the average 11 year old. (as tested by xyz authority).”

Another advertisement read -

“our school's music, drama and sports departments are each ranked Number 1 in New Zealand by xyz authority while at the same time the school maintained its top 10 ranking in terms of overall academic achievement.”
- Costs as a result of the huge improvements in productivity have fallen dramatically for the equivalent level of education delivered in 2008. The savings have been reinvested into education in a number of new and innovative ways. Improved teacher skills, capital to further enhance productivity and technology.
- The length of the school year and the hours per day that schools remain open are no longer regulated and vary enormously as schools respond to the needs of different parents.
- The size of schools varies considerably with the major change being the growth of one-teacher schools at primary and pre-school level, often co-operating with other one-teacher schools to provide certain amenities and specialist teaching. This change has led to a closer relationship between teacher and parent.

- At the secondary school level branding has become all-important with 20 chains of schools in fierce competition with one another dominating the market. Niche schools still thrive but now teach less than 10 percent of all secondary school pupils. The majority now attends one of 20 chains now operating. Of these 20, 15 are owned by the teachers in partnership along the lines of public accountants' and lawyers' practices. If you desire an Auckland Grammar, or Avondale College or a Christ's College type education, it is now available throughout the country.
- Performance contracts between schools and parents are becoming more and more popular, especially at the primary level. The contract specifies where John or Mary will be in various subjects at the end of the contract period. Numerous benchmarks are laid out on the way. Parents and teachers meet often to discuss progress. Teachers teach parents on how to help their children read for example.
- The status of teachers as a result of the changes is seen to be the equal of accountants, lawyers and doctors.
- Young people compete vigorously to get into the very best recognised institutions undertaking teacher training.
- Testing and comparing performance between schools and countries has become the norm with any number of independent bodies undertaking these comparisons. Parents purchase this information which helps them make informed decisions about where to send their children.
- In terms of reading and writing New Zealand now leads the world, having made dramatic progress over the last 15 years.
- Public schools have improved their performance dramatically as a result of increased competition and now teach 40% of all pupils.
- Another 40% of pupils learn at schools substantially owned by the teachers themselves.
- The remaining 20% of pupils learn at schools owned by publicly listed companies.
- 80% of school buildings are now owned and maintained by property companies who compete in providing schools with their specialist requirements.
- The old style training colleges have disappeared with any number of other institutions (including schools themselves and universities) providing a level of teacher training unheard of 10 years previously.
- The incomes of teachers now varies enormously as it does in other professions with the CEO of the largest chain on secondary schools earning more than \$1 million.
- Unions in the field of education which dominated education so much in the 90s and beyond have lost their power, as a result of failing to adapt to the new environment and as both parents and teachers realised that the standard of education had gone ahead by leaps and bounds.
- The educational bureaucracy of 2008 in Wellington has been replaced by an Educational Authority which employs less than 10% of those employed by the old Education Department. The substantial funds freed up now go directly to schools and universities.

- A new set of incentives exists within education and only those schools and universities who have responded positively have survived. The new educational environment demands -
  - Quality first and foremost
  - Competitive pricing
  - A recognition of the different needs of each and every child. Tailored programmes for each child are now the norm and not the exception.
- Schools, particularly pre-schools and primary schools have developed new streams of income unheard of in the 2008.
- The fact that the self-interest of parents, teachers and schools are now aligned is largely responsible for the huge improvements in standards.

## Chapter 12

### Welfare today

*Fifty years ago we recognised that there were people among us who needed extra help and made a decision, as a nation, that those needs should be met. Even if we have a perfect economic system, there will still be some who fall out of it for a variety of reasons and for varying periods of time. At the end of the 1930s we established a welfare system to act both as a safety net and a base from which people could re-enter productive society. Part of that system was a number of institutions whose role was to act as conduits for aid given by the community, through the Government, to those who were in need, but something has gone terribly wrong with the system, and the institutions, as society has changed around them.*

Roger Douglas, *Toward Prosperity*, 1987

The welfare system established in New Zealand at the end of the 1930s inevitably involved the government's tax, expenditure and benefit systems. As time passed, government expenditure expanded far beyond anything envisaged in the thirties, and the tax and benefit systems became expensive, convoluted, burdensome and wasteful. They were no longer fair or equitable. Decades of fiddling around the edges simply created greater anomalies and more problems. By the late twentieth century, the most disturbing question about social welfare and the poor and disadvantaged was not how much it cost but what it had bought.

To achieve the right kind of welfare system requires an uncomfortably honest look at the present system – why we agree to help some people, what we want to accomplish, and the constraints on how we ‘help’ people. American social scientist Charles Murray has said of the social programmes instituted under the ‘new wisdom’ of the 1960s that they were not just a ‘blunder on purely pragmatic grounds’ but also wrong on moral grounds, no matter how noble the intentions have been:

*...It was wrong to take from the most industrious, most respectable poor – take safety, education, justice, status – so that we could cater to the least industrious, least responsible poor. It was wrong to impose rules that made it rational for adolescents to behave in ways that destroyed their futures. The changes we made were not policy errors, not just inexpedient, but unjust. The injustice of the policies was compounded by the almost complete immunity of the elite from the price they demand of the poor.*

Murray's argument is that the fault of today's social welfare programmes is strategic; that social policy helps set the rules of the game – ‘the stakes, the risks, the payoffs, the trade-offs, and the strategies for making a living, raising a family, having fun, defining what “winning” and “success” mean’. He maintains that although governments and the general population think of social welfare as an economic transfer from the haves to the have-nots, an alarming number of non-economic transfers are from poor to poor. When poor, young offenders are put on probation, the people left most at risk are the poor in their neighbourhood. When job-training programmes are set at the level of the least competent, they take away from the more competent trainees the opportunity to reach their potential. When social policy ranks some jobs as too menial to ask anyone to do, those who prefer to do that work rather than go onto welfare have their basis for self-respect taken from them.

If taxpayers are to agree to economic transfers (benefits), Murray considers that they can legitimately ask of the government doing the redistribution that it be right – that the taxpayer's resources are large enough overall and the recipient's too small; and the transfer is successful – that it has the desired effect. But he warns that governments and general society need to remember two

factors. First, by their nature, transfers are treacherous. They can be needed, useful and justified, but they should be approached like a dangerous drug – not to be used at all if possible and no more than necessary. Secondly, compulsory transfers between one poor person and another are, as a general rule, uncomfortably like robbery. When the government takes money from the very rich to give it to the very poor there is room for error. With non-economic transfers from poor to poor there is no margin for error at all.

Social policy's purpose is not to salve consciences at the expense of those society wishes to help. The defence of 'good intentions' is no longer credible. A fundamental rethink of social policy is needed. Personal and family responsibility and support should be placed first once more. The focus needs to shift from the State as the chief, and sometimes only means of help to that of the safety net when all else has failed. Too many years of the state attempting to take care of every problem and every situation eventually weakens an individual's sense of responsibility – first for all members of society, then for relatives and family, and finally even for him or herself. If the state has been taking a substantial portion of each person's income to fund its role as universal caretaker, then people begin to feel they've done their bit, and that all care and responsibility now lie with the Government/State. The ultimate effect is a less caring society.

Murray's views need to be considered carefully.

Some key problems of the past, such as high inflation, have been solved as a result of reforms already in place. The problems that remain cannot be remedied by shortening our focus and trying to avoid them with ad hoc short-term solutions. With that kind of approach, the long-term gain is lost and the palliative solution is, in any case, merely temporary. The only true remedy and the only way we can make sure the situation of the disadvantaged is dealt with constructively, is to focus on long-term gains and pursue them.

**What we do know is that chucking money at social problems is the single most efficient way to inflame the problem.**

If society is to function, people must be held responsible for their own actions.

### **Each generation should pay its own way**

I frequently hear older people saying "I've paid taxes all my life for a pension". Unfortunately the reality is different. These people have been lied to by one generation of politicians after another. The taxes they paid never went towards their pension. They were paying for their parents' pension. The money taken by government never went into a fund, it was never saved. It was spent on the range of projects that politicians like to undertake with our money.

Everyone would like something for their kids. No one wants to die and leave their children a burden of debt. What grandparent wants to lumber their grandchild with \$300,000 debt? Yet that is what we do.

This is the debt that each new baby has to carry because governments they never voted for ran up debt and made pension promises simply to win their grandparents' vote. We have lumbered our grandchildren with this debt just as surely as if we had gone down to the local bank ourselves and taken out an overdraft we never intended to pay off.

If each generation doesn't pay its own way then we are engaged in intergenerational theft.

My family was in parliament for more than 50 years and much of that time the emphasis was on the word “welfare” not the state. Now the emphasis is on the state and people’s welfare is incidental.

**The welfare system has become a monstrous perversion of the original.**

It was designed to make people independent, but precisely the opposite has occurred.

The lower-income and the poor, who were supposed to be the major beneficiaries of the welfare state, have been rendered totally dependent on the state. As a result they have been denied jobs, incentives and the opportunity to build wealth for themselves and their families.

For a variety of reasons – guilt, idealism, and occasional greed, the middle-income earners of society have also allowed themselves to be turned into state dependants too.

The system of universal welfare has turned us into a nation of state dependants, from the poorest right through to the top-income earners. The vast majority of us rely wholly on the state for our risk insurance (unemployment, sickness and accident benefits), education, health and superannuation.

Top and middle-income earners have been conned; the poor have been caught in a poverty trap. The only people to thoroughly benefit have been state servants. Middle-income earners pay by far the greatest amount of tax and in return are offered:

- Under-funded schools
- Hospitals they can’t get into
- A fraudulent pension scheme

The process involves churning (taking with one hand and giving it back with the other) billions of dollars of income in a way that does:

- Nothing for equity
- Involves enormous disincentive effects of taxation
- Substitutes government monopoly for private effort
- Damages the interests of the poor

It relies on trickledown theory. We, the public, throw billions of dollars of income tax at the government and they throw billions back into the economy in the hope that some of it will eventually reach those who actually need it most of all. The result you can see in schools in poorer areas that look like inner city New York.

- Close to a hundred thousand people on health waiting lists.
- A superannuation system which takes a fortune from ordinary working pay packets and returns a miserable pension to them in retirement.

**In the process the state has become husband, father, provider, employer and big brother to hundreds of thousands of New Zealanders and in the process, our values as a country have been changed profoundly.**

We all know this is true. We see the evidence of it all around us every day. Respect for women and children and old people; you’d think it would have increased with all the programmes in place and the dogma they teach, but look at how women and children and old people are actually treated.

Virtually every retired person is reduced to state dependence in order to survive. We hear about the violence in the home and in the pubs, the statistics of abuse and battery and rape. For developed countries, New Zealand has the second highest figure per head of population for sex crimes.

Is this a consequence of capitalism? Of market forces? Of economic progress? I don't think so.

Other countries, particularly in Asia, have developed without this sense of social and moral decay.

We know in New Zealand the appalling paradox that giving people money makes them poor. When you spoon-feed people all their lives you rob them of the incentive or even the ability to get out and make a living for themselves and their families.

So the welfare state today does precisely the opposite of what it was intended to do. It was designed to secure the dignity of working people; today it has trapped people in government created poverty. Now we have second and third generation beneficiaries living in conditions that were once unheard of in New Zealand.

Poverty is increasing dramatically and so are all the associated ills. The answer is not more spoon-feeding. Just giving people money makes them poor. To break the cycle we have got to set people up to take care of themselves and their families with dignity and independence. The answer lies in:

1. Choice in education, healthcare and retirement income.
2. A much lower tax structure to help create a large number of jobs, which would also help the move from dependence to work.
3. In the case of long-term unemployed the state must find a way to help these families at risk, without making them permanently dependent on the state (appointing a mentor is suggested).

In other words, to solve this problem we have got to use our head as much as our heart.

### **What are the problems we face today?**

One fundamental problem I see is one of public apathy, of defeatism, of believing that our problems are so big that we can't do anything about them.

The same sort of things are happening all over the world, gangs in Los Angeles, endemic poverty in Britain, violence and an unravelling society everywhere, and we think this is inevitable. I don't believe it is.

I've talked to a lot of people about what they feel is going on in New Zealand. There is an extraordinary agreement about what is right and what is wrong. I have seen what happens in focus groups that research New Zealander's attitudes. The interesting thing is that for the first twenty minutes, research groups of every persuasion, left and right, young and old, all talk about Maori and nothing but Maori.

Even more interestingly, they don't use the word 'Maori'. They use words like 'youth', 'crime', 'unemployment', 'drug abuse', 'violence'. In the context of these polite research groups these are the code words used for Maori. These problems affecting Maori are worrying New Zealanders deeply. The relationship we have between our two races is fundamental to our national identity; it is part of what makes us New Zealanders.

I remember a touching piece in a magazine written by a man remembering his nervousness at his first day at his first school. But then a little Maori boy came up to him and put his arm around his neck and said, "you're my mate". And so they were all through primary school. That's what our relationship should be. It's a part of our heritage and part of our living culture.

I know this is true. Because I've seen young New Zealanders overseas and if they're celebrating it's not long before someone starts doing a haka. Most of us older types remember the warmth between Maori and Pakeha. This relationship between us is central to our identity as New Zealanders.

And people quite rightly perceive that this relationship is deeply threatened by what is happening, by the unravelling we see all around us. So my view is that people's perception of social decay is absolutely accurate and the cheer-up noises made by Labour leaders are absolutely off the mark.

My second point is this.

While the underclass that has developed is largely Polynesian this is not a racial issue. It is a family one, and it has an economic and social root not a racial one. Studies show that children (Maori or Pakeha) born into an unstable home are equally at risk of offending against society. For both races, a dysfunctional family increases those chances fiftyfold. The assumption that race and crime go together is totally false.

Realising this makes the problem quite approachable. Solutions are possible. All it requires, like other economic and social problems, is constructing circumstances in which people's natural vitality and natural ambition to do well for their family can be expressed.

First it requires us to look at the problem. So let me draw a picture of a family that will be familiar to some social workers.

Imagine a household:

By the path leading to the front door there is rusted machinery of some sort. There is a sodden mattress. A young Maori woman opens the door. She does not seem embarrassed by her face which has heavy bruises. The hallway is dark. A blanket has been hung on a broken window. A child stands in a doorway dressed only in a filthy T-shirt. He has open sores on his face and on his arms. They may be cigarette burns. He has a wounded look in his eyes, and for good reason.

Mum is Samoan, from a large family but she has become isolated from her whanau. Her first husband was Pakeha, now she is with a Maori. She has no qualifications and has never been employed. She has dropped out of the church; her de facto pressured her into it. She receives budget advice from the Citizen's Advice Bureau (her situation fails to improve). Her kids get hidings from her new de facto and she is unable to intervene.

Mum has Maria, a new daughter from her de facto. Her father treats her as a princess but she is not in good health, suffering from epilepsy and asthma. Perhaps as a result she has learning difficulties, she's well behind in her reading but her family can't afford a programme to fix the problem. She also has an older son by her first husband. He is known to the Community Constable for matters such as graffiti, drinking and to Youth Aid for bus vandalism and marijuana use. He goes to school but he truants much of the time. He has a hot temper. He's on the fringes of a local gang. He has been held for offences. His full sister is in the same situation.

In five years' time:

Maria was the treasure of the family, the princess. But then her father was sent to jail for five years and a new de facto moved in. She is now vulnerable to sexual abuse by the new man because of her mother's neglect. Her role model is her half-sister who is pregnant again, tattooed, jobless, living on welfare.

Maria's half-sister is now eighteen and has a three-year-old child of her own. She is not sure who the father is but believes it to be her mother's first de facto. Because of her tattoos she has no prospect of ever finding a job. She lives on a benefit and tops up her income with prostitution, and benefit fraud. She smokes cannabis and this destroys her motivation to keep the house clean or send the kids to school. Her child is susceptible to sexual abuse from the men that come through her life.

Her brother has been forced out of the house by beatings and abuse from his mother's de facto. His standard of living improved by going on the street.

Peer pressure has drawn him into a gang. He has fathered two children from different teenage mothers. He is the role model for his children. Not being able to afford cannabis, he sniffs glue, and this makes him stupid and violent. He is part of a burgle-to-order network and this is his career path. He has been in jail twice.

**The sins of the parents are visited on the children to the second and third generation.**

In the passage of those five years, mum has grandchildren to look after. She has been increasingly isolated from her Samoan roots. Another man has replaced her first de facto (who is now in jail). She is frequently absent from home due to a bingo addiction. While her de facto is in jail she gets in male boarders to help pay the state house rent. This male traffic through the house increases the potential for sexual abuse of the children in the house.

And so it goes on. The cycle continues.

These families exist. We are doing nothing to help them. Their numbers are increasing at a frightening rate. What are we to do?

The only moral or ethical policy is one that works. The rest are lies, and in the case of social welfare, expensive, dangerous and deeply damaging lies as well.

The fact is you can forget unemployment, poverty and ethnic background as causes of deep family problems like these; the popular tags are superficial symptoms rather than fundamental causes.

The pivotal issue is the quality and nature of the family and its ability to bring up children well.

Studies show that when we look at multi-problem kids, kids from what we might call chaotic families, they are fifty times more likely to be severely disturbed than those who suffer simply from poverty or simply from unemployment.

Chaotic families manifest themselves in five or six ways:

- Substance abuse
- Criminal behaviour
- Psychiatric disorder

- Multiple partners
- Violence
- Sexual abuse

So what do we do for this group as a matter of social policy?

At the moment, what we are not doing is the more important question. We are not even admitting they exist, and that seems to me to be a catastrophic lack of moral or even practical purpose.

Perhaps because the group is largely Polynesian, we haven't dared confront the issue. We comfortable New Zealanders have this sense, as in a dream, of something chasing us, gaining on us, and we aren't look behind to see what it is.

When being chased in a dream I am advised that you should stop, turn around and face whatever is chasing you. You ask it to do a small service and all the fear goes out of the situation. So it is in life. The first point of action is to stop and confront the problem.

Thus:

- We acknowledge this group exists and that it is growing rapidly.
- Recognise if we don't do something about it, it will cripple New Zealand. It is, in a real sense, the cancer within.
- Recognise that doing something about it helps us all. We are even now paying the cost in terms of police, social welfare, special teachers, probation officers, jails etc.
- Recognise also that help can only be provided when people have decided to help themselves. So real help has to be in the form of a carrot and a stick. It cannot be all carrot, as it is today for those who want to remain dependent.

The incentives are all wrong. And while exceptional individuals may rise above the system, people will generally behave as the incentives drive them.

**And let us embrace the fact that the DPB is the worst job creation scheme in the world.**

Thirty years ago the illegitimacy rate was negligible (six percent for Maori, to be precise). This year the figure will be around 70%. It is not widely known these days that seven of ten Maori babies are born out of marriage. The Statistics Department say it's a Maori cultural thing.

We all know this is not true. The reason is not cultural but economic. Maori girls leave school poorly equipped for the workplace. They lack confidence. Their school has not given them any skills that people want to pay for. The girls feel rejected and unwanted by the working world. They can't find a place in society or a role to play. So they get pregnant. They find the State a far better provider than their equally poorly skilled classmates.

Many of these girls having children are hardly more than children themselves. And the problem is compounding. Children born to a solo mother are three times more likely to be solo parents themselves. And the results are crime, unemployment, poverty, drug abuse, violence, and mental illness. Maori are all over-represented in these categories and children from solo parent families are extraordinarily vulnerable to suffer these effects.

**If money solved these problems New Zealand would be the safest and most successful country in the world.**

We've spent around \$200 billion on social welfare in the last twenty-five years and yet crime, violence, and poverty are all increasing.

I believe that the state has actually given up. Tired old parties and tired old politicians repeat themselves, and repeat their mistakes. I believe the reason they are continuing to pour money into social welfare is either because they can't be bothered to think about it. Because they're ashamed that all their efforts have made things worse. Maori now have more dysfunctional families than at any time in our history. And the glaring fact about these dysfunctional families is not that they are Maori. It is how often they are solo parent families, with pathetically young mothers, hardly grown-up enough to look after themselves. The consequence of all this has been disastrous for New Zealand.

**The family is the source of most of New Zealand's violent crime**

**The challenge:**

If we are serious about solving the crime problem, let us stop blaming race and poverty, and start focusing on building the family and increasing personal responsibility.

When children are neglected by their parent they resort to aggressive behaviour to get attention. Then they find they only get along with other aggressive children.

**Stage 1**

The typical childhood of a criminal offender looks like this:

- When the child is born the father has already left the mother.
- The child never bonds with the mother and childcare changes frequently.
- The adults in the child's life frequently quarrel violently. The child is deprived of affection.
- The child is difficult to handle at school and is rejected by other children.
- The child looks for and finds acceptance only among other hostile children.
- The child and friends are slower at school, resulting in lower expectations of themselves.
- The child is likely to suffer from ailments such as glue ear, which seriously impede schooling.
- The social services the child encounters have very low expectations and so does the family.

**Stage 2**

The typical youth of a criminal offender goes like this:

- By 10 or 11 the child is well established in a number of bad ways.
- By 15 or 16 the boy will engage in criminal behaviour.
- The earlier he commits his first criminal act, the longer he will lead a life of crime.
- The girls he knows are on a similar course.

- Many of the girls have run away from home.
- Many in the group use drugs.
- Violence is the norm among his group of friends.
- The girls often get involved in prostitution, while the boys join criminal gangs.
- Many join in to secure the comfort and protection in gangs.

### Stage 3

The cycle continues. A new child, a new generation of potential criminals begins:

- His 15-year-old girlfriend gets pregnant.
- He shows no responsibility. He leaves her, often never seeing the baby.
- In his neighbourhood, dysfunctional families like the one this child has been born into are responsible for 80 percent of major crime.

The fact is that governments could have a positive effect on reducing crime, but not by relying on more and more policemen on the beat. That's not the answer. How many more policemen are we going to need to keep a lid on things as the problem really starts growing?

The welfare system is far more to blame. **The system rewards dysfunction and single parent families.** It encourages people to become dependent on the DPB or other benefits. This leads to a lack of personal responsibility, loss of dignity and self-worth and sets the foundation for increasing crime.

The problems faced by these young men started early in life and never got any better. They've been shut out of the workplace, from society or from any real opportunity to form and maintain a family. That too is why we open the paper and routinely see horrific crimes of violence.

Young men with jobs, money in their pockets, a mortgage, a wife and two kids do not go round brutalising store keepers for cigarettes, raping young girls on their way home from school or beating up pensioners for their medicinal drugs.

We should be very plain that the situation has nothing to do with the particular state of New Zealand's economy.

They are the result of:

- A welfare system that breaks up families.
- An education system that spits young men out after a decade, unfit for any meaningful work in society.
- A system of payments to young women who have their children, and that renders the young men a financial liability to their girlfriends, i.e. it pays you as long as you do not work or get married to someone who is in paid employment.

These young men are angry, isolated, unwanted and while I wouldn't say they've got every right to be, I can certainly empathise with their predicament. How would you hack it, being a 19-year-old youth who can't read, who has no prospect of a job other than the most menial, no prospect of generating an honest income which would offer the rudiments of what we call a reasonable life? These young men have no prospect of ever honestly accumulating assets and a stake in society.

*Worst of all, they have no prospect of looking after the mother of their children better than the taxpayer.*

The number of these people is growing explosively. Despite some cuts in the 1990s, the bill is getting bigger and bigger. This is creating a time bomb of resentment, both from those who are paying and those who are receiving.

Traditional conservative methods of social control are inadequate; the courts can't process the offenders fast enough. Traditional left wing methods of throwing money at the problem and hoping it gets better well, that's what created the drama in the first place.

**What we've got to understand is that no one in Parliament has a plan to make it better.**

These young men and their girlfriends live in the half-light of a world on the edge of society. They have been so thoroughly marginalised they haven't the confidence to believe they can get into a rewarding relationship with society. They've been given these signals for decades.

If we continue to throw money at the problem and expect it to get better, we will only succeed in making it worse. So here's a positive approach to the problem to tackle the problem at its root.

**A positive solution for at-risk families: mentors.**

Mentors would have a budget. Some families have \$100,000 a year spent on them in social services from a dozen different agencies. A mentoring plan would give one person, the mentor, the incentive and the resources to make a real difference.

I suggest this as a process that might just work:

- Appoint a mentor to act as a guide, a coach, an advocate, a friend to the family. The mentor holds and controls a budget consisting of a proportion of what the state spends on this family through a wide variety of fragmented agencies where one hand doesn't know what the other is doing.
- The mentor would analyse what is really happening in the family. The mentor would diagnose the real problems.
- The mentor would sit down with the family and plan a programme of action.
  - i) If the family is not prepared to agree to the plan finally put forward by the mentor then the state would deliver help in kind rather than in cash.
  - ii) If the family wants to help themselves, then they and the mentor would be able to proceed to use the money now spent on the family with the single objective of getting them up and running independent, self-supporting.
- The aim would be to get families off dependency.

This is a message that is important for all New Zealanders. The growth of troubled families like the ones outlined in this chapter makes it difficult to believe that we New Zealanders really do care about our community.

By helping the disadvantaged to achieve independence and contribute more to society, we transform their future and improve everyone else's. The alternative is a society with a permanent underclass of alienated people with no stake in prosperity or social harmony.

By moving to solve these deep seated issues faced by five percent of New Zealand families (who are responsible for 80 percent of serious crime in New Zealand) we will bring benefits to all New Zealanders financially and socially. We will be dealing with the root causes of the problems, not just dealing piecemeal with short term symptoms.

**But they are elusive, at-risk families; they are not easy to help.**

A lifetime of lying, manipulating and running away in order to survive comes to the rescue of at-risk families when the authorities intervene. They deny, avoid, defy, manipulate, and if they can, disappear from the grasp of the child protection agencies as soon as possible.

They have never had any reason to trust anyone, so appeals to let themselves be helped are viewed with total suspicion and mistrust.

The current notion these families can be helped by parent classes, a bit of budgeting and then provision of occasional day care facilities is not tenable. Yet if they get anything at all, this is often the sum total of what society has to offer them in New Zealand.

**The challenge:**

Let's get stuck into the government and insist they accept their responsibility to set up decent policies to stop this vicious cycle. It is in this way that this country will rediscover the basic tenets of democracy, namely:

- Equal opportunity
- Freedom of expression
- The right to choose
- And the right to determine one's own destiny.

**The mentor system brings power down to a local level, to individuals.**

People will achieve personal growth, and through a greater sense of responsibility will know how hard work increases their personal freedom, and how competence and technical skills give them independence, dignity and respect.

The process of choice sometimes leads to mistakes, but they will be smaller than the mistakes giant bureaucracies make and more easily corrected. And in so correcting them, individuals will learn mastery and enjoy a higher self-image.

Compare this to the present situation which, for many, creates all the bad things that flow out of a monopoly supply of government welfare.

- Dependency and low self esteem
- Spoilt, demanding social behaviour
- A disabled population, violence, drugs and sex abuse.
- Lack of dignity.

**For these people no amount of economic growth will lift their life chances.**

Their lack of skills and purpose completely shuts them out of participation in the modern economy. In a way we recognise that by brushing over welfare dependency and making excuses for juvenile delinquency. The only way to stop the problem growing is to deal with the welfare problem and put in place an educational system that works for every kid, not just the average.

Everyone says that education is the key to individual and social advancement. They say it and then immediately proceed to support a system that leaves so many of our children totally out in the cold.

Government spending has increased and serious crimes have increased as well. Teenage violence, young mothers, welfare dependency, graffiti, disdain for authority, it's all around us. We have created a system which actively encourages the weaker sides of our characters to take precedence over the better sides.

Many well-meaning social welfare organisations and government agencies buy into the victimisation routine that often surrounds this group, and provide more and more, to try and fill the bottomless yearning these people have.

Whatever these people do get is never enough. Because the state can only give them money, not what they really need. Many young mothers 16, 17, and 18 years old, only want to be held, instead they become pregnant. Others want a baby to love them, they bear a child for their own needs. Children raised in this environment show one or more of the following:

- Malnutrition
- No medical care when sick
- Dependency on government or neighbours or relatives for food or shelter

It is no wonder that these children feel little remorse when confronted with the unbelievable crimes we now almost take for granted. The fact that they feel no guilt is why it is so important to attack the source of the problem not the symptoms. Church leaders, even Governors-General, in a cloak of piety, demand more money to be poured into the symptoms.

Ultimately they may realise the part they have really played. That they have collaborated in a massive increase of violence, suffering and despair.

**And all the time they believed they were on the side of the angels.**

## Chapter 13

### Risk insurance for accidents, sickness and unemployment

#### How it operates in practice as a result of big idea:

Higher personal income via:

- Tax reductions (flowing from the ability to earn a tax free income and/or tax credits) plus an employer contribution has enabled all New Zealanders to buy the old welfare products they need in a competitive open marketplace (health cover, sickness, accident and unemployment insurance).
- Because insurance companies are obliged to provide information relating to prices and costs, most people have elected to rely on self-insurance for small items of expenditure.

A large number of benefits have automatically flowed from the changes, among them the facts that:

- **Consumers are now spending their own money.**  
This has led to lower levels of demand than was the case under the old welfare system with self-insurance evident for non-catastrophic events.
- **Pressure to reduce costs is evident throughout the system.**  
Under the old welfare system, providers often increase their own incomes only when costs went up. This is not now the case where higher incomes depend on being more efficient than other providers.
- **Choice for the vast majority of the population is readily available.**  
Under the old welfare system, most people having paid  $\frac{1}{3}$  or more of their income in taxes could not afford alternative private options for healthcare or sickness or to save for their retirement. This is now possible for all New Zealanders.
- **Innovation can be seen everywhere**  
Under the old system, the government welfare, education and healthcare industry were often hostile to change and discouraged its development. Today innovation is one of the only ways a company can stay ahead.
- **Prices readily available.**
- **Producers advertise price discounts and quality differences.** This was not so with the old government welfare.
- **Quality of service comparisons readily available.**  
Information is now made available to ordinary people about the quality of the services they receive from the various companies offering products in the marketplace.

#### How does this system compare with what many would regard as an ideal welfare system?

- **An ideal system would remove social welfare (as far as possible) from day-to-day political decision making.**  
This is vital. Until we do this, the well-organised special interest groups will continue to do great harm to the rest of us. **Achieved**

- **Transfer power from large institutions (Accident Compensation Corporation) and impersonal bureaucracies (Health, Education and Social Welfare Departments) to individuals.**  
Such institutions will never care about us or know as much about us as we do – we need to remove their decision-making power from them as it affects individuals. **Achieved**
- **Restore the buyer/seller relationship to consumers and providers.**  
So that each of us as consumers becomes the principal buyer of welfare services, be they welfare, superannuation, health or education, as we do with other goods and services rather than third parties. **Achieved**
- **Subject social welfare to the benefits of competition.**  
By creating market-based organisations where each of us benefits from good decisions or bears the cost of bad ones (mind, none could be as bad as government inflicts on us all at the moment). **Achieved**
- **Create a marketplace where individuals (as much as possible spend their own money rather than someone else's).**  
Major tax reductions and, for some, tax credits have enabled all New Zealanders to buy what they need in the market. Because people are now spending their own money rather than someone else's, they are demanding better service and higher standards. **Achieved**

**An ideal social welfare system would work along the following lines:**

- Consumers, rather than third parties, would be the principal buyers of welfare type products with opportunities to compare options, compare prices and make decisions. **Achieved**
- Insurance companies would specialise in the business of insurance. **Achieved**
- Fund managers would specialise in the business of providing for each individual's requirements. **Achieved**
- Employers would help individual employees make informed decisions. **Achieved**
- Doctors, teachers, welfare workers would help consumers make informed decisions rather than act as agents for the third party buyers i.e. the government. **Achieved**
- Hospitals, schools and welfare institutions would be competitors in the business of providing welfare services rather than acting as agents for third parties (government). **Achieved**
- Government, in its role as insurer of last resort, would help pay the costs of low-income people but would no longer buy welfare, healthcare or education products on behalf of individuals. **Achieved**
- Government, in its role of policy-maker, would facilitate long-term savings and adequate cover for catastrophic welfare events and competition between suppliers. **Achieved**

## Chapter 14

### Welfare reform

#### Principle

All New Zealanders provided with the opportunity and means to look after themselves.

#### Today's welfare situation

- Hundreds of thousands of New Zealanders are locked into dependency.
- Hurts the poor more than anyone else.
- Fails to deliver goods and services which actually help people change their circumstances.
- Adult non-working state dependants approximately one person in four.
- Majority of New Zealanders have no savings and thereby no sense of ownership.
- Inadequate housing.
- Poor end up at the bottom of waiting lists in public hospital queues.
- Poor live in neighbourhoods which are subject to higher the rate of crime.
- Maori over-represented (by approximately 400 percent) in poor outcomes – education, health and welfare.
- Too many immigrants on welfare.
- Bad parenting for new generation.
- Boredom, low self-esteem, alienation, drug abuse and high youth suicide clearly apparent.
- Monopoly supply (no choice)
- Hardcore welfare problems continue to increase.
- 80 percent of retired people have little income beyond that provided by government.
- Huge increase in middle-class welfare under the current Labour Government.

#### All this despite:

Unimaginable sums of money being thrown at welfare issues over the past 40 years.

#### Principles

Twelve principles to help solve this situation:

- One:** Real sustainable gains in living standards and opportunities for all New Zealanders, and in particular, low-income working families.
- Two:** Tax/benefit/welfare reform to encourage self-reliance.
- Three:** Savings reform to reduce dependency in retirement.

- Four:** Labour market reform to create more jobs.
- Five:** Get the politicians as far away from social policy delivery as possible.
- Six:** Each generation should provide for themselves to the maximum extent possible.
- Seven:** Ensure families have maximum choice in what and from whom they buy social service products.
- Eight:** Avoid creating severe disincentives for employment.
- Nine:** Assist and reward effort and, in a broader sense for self-help, participation and dignity.
- Ten:** System to be fiscally sound i.e. sustainable.
- Eleven:** Tax collection and payment systems should be such that they minimise interference with people's lives and choices.
- Twelve:** Eliminate poverty traps, as far as possible.

### **How do you bring these principles into being?**

#### **A commonsense approach to welfare would involve the following:**

- A recognition that government funding of welfare is no longer sound.
- That Wellington will continue to make promises to you that it cannot keep.
- That we need to fix welfare “once and for all”. A permanent solution, not more short-term fixes.
- Solving the growing tensions between the generations as spending on the elderly is set to explode.
- Tax reform that encourages savings and self-provision.
- Reduce government expenditure on welfare by transferring it to private sector (stop churning).
- A close look at New Zealand's adoption laws.
- Require paternity establishment for children receiving government assistance.
- Establish sensible workforce priorities.
- Recognise the limits of job training.
- Convert some welfare benefits into loans and/or opportunities for capital accumulation.
- Provide incentives to encourage constructive behaviour.

#### **Policy approach – a broad outline**

##### **Accident, sickness, unemployment:**

- All employees to take out insurance cover against accident, sickness, unemployment (could be part of an employer sponsored scheme).

- Cover to be for no more than 35 weeks a year.
- Dollar cover to be at least equal to what individual would currently receive from government by way of benefit.
- First 17 weeks covered by:
  - (1) Any employment rights (redundancy, award/employment agreement payments)
  - (2) Draw down on superannuation (up to \$4,000 per year per person). See superannuation policy for details.
  - (3) Government contribution if 1 and 2 insufficient.
- Remaining 35 weeks or part thereof covered by insurance policy.
- Premiums paid 50 percent by employer, 50 percent by employee (current ACC premium + tax credit).

### **Domestic Purposes Benefit**

#### **Solution – Domestic Purposes Benefit-future beneficiaries**

##### **1. Under 18**

- A. All benefits and allowances for young people under the age of 18 will be abolished and support for young people aged 16 and 17 without income, e.g. DPB or unemployed will be the responsibility of parents who will in special circumstances be able to draw down on their superannuation fund contributions and those of the fathers.
- B. Emergency assistance in special circumstances will be available for those estranged from their families. Government would draw down on families' superannuation rights for that year to help meet any costs.

##### **2. Over 18 – solo parents (never married)**

- A. Solo parents would draw down on:
  - a) Their own superannuation rights for the year
  - b) The father's superannuation rights for the year
 before c) A government benefit was available.
- B. Given the fact that most schools, pre-school, primary and secondary, now open for business around 7.30am and remain open until at least 5.30pm, solo parents would be expected to look for part-time or full-time work.
- C. The educational tax credit available to solo parents who work either part or full-time could be adjusted to take into account the extra costs involved. (See education)

### 3. Over 18 – solo parents (previously married)

- A. Given the hours schools are now open, solo parents would be expected to continue to work.
- B. Caregivers' tax-free income level would reflect the new situation.
- C. If non-caregiver failed to meet any support payments due, then non-caregiver's superannuation would be available to caregiver.

### 4. Over 18 – solo parents (previously married) – caregiver not working

- A. Care giving solo parent would draw down on:

- a) Own superannuation rights
- b) Non-caregiver's support payments
- c) Non-caregiver's superannuation rights (if b not paid)

before d) A government benefit was available

- B. Given the fact that most schools – pre-school, primary and secondary, now open for business around 7.30am and remain open until at least 5.30pm, solo parents would be expected to look for part-time or full-time work.
- C. The educational tax credit available to solo parents who work either part or full-time could be adjusted to take into account the extra costs involved.

### Solution - Domestic Purposes Benefit – existing beneficiaries

1. Existing DPB would draw down on their own superannuation rights for the year.
2. Depending on circumstances of each case, the father's superannuation rights might be drawn upon before any government contribution made.
3. Given the fact that most schools, pre-school, primary and secondary, now open for business around 7.30am and remain open until at least 5.30pm, solo parents would be expected to look for part-time or full-time work. Given that 60 percent of mothers in two-parent families work either part or full-time, it seems reasonable to expect solo parents to do the same.
4. The educational tax credit available to solo parents who work either part or full-time could be adjusted to take into account the extra costs involved. (See education)

### Outcome

Reduction in government welfare expenditure vote at least 50 percent year 1 increasing over time to 80 percent+.

### Overall objective of programme

Is to ensure that, over time, 90%+ of individual New Zealanders are able to adequately provide for themselves/family during their working life and into retirement.

In achieving this objective, several other favourable outcomes would occur.

- Incentives would be vastly improved, leading to increased growth and a lift in general living standards.
- Welfare would become largely depoliticised, reducing the power and need for the current welfare lobby.
- Enormous efficiency gains would flow from the massive reduction in bureaucratic churning that takes place under the present system.
- A sustainable system would have been put in place where most people ultimately provide for themselves.
- Choice – people using their own money would find a whole new world opened up to them, not only in areas of welfare, but also savings, education and health.
- A greater sense of belonging would become apparent everywhere, as people looked after themselves rather than being looked after by some bureaucratic welfare monster.

## Chapter 15

### Welfare 2020

This chapter looks at what the welfare benefit system would look like in 2020 on the assumption New Zealand introduced the policies outlined in earlier chapter.

- Politicians' role in the welfare benefit payment system reduced dramatically.
- 90 percent of working age consumers are now spending their own money to buy insurance cover for healthcare, accident, sickness and unemployment in the private sector.
- Competition and the 17 week self-insurance deductible has brought about a dramatic reduction in costs of risk insurance, health, accident, sickness, unemployment.
- Consumers now have choice of any number of providers.
- Consumers know exactly what each option would cost them.
- Consumers can now ascertain the quality of the service being offered as a result of private sector specialist analysis and publications based on that analysis.
- Power has moved away from large institutions (e.g. Accident Compensation Corporation) and impersonal bureaucracies (Health, Education, Social Welfare departments) to individual consumers.
- Consumer self-insurance for small health cost items up to 5 percent of income is apparent throughout the system.
- 90 percent of working age individuals are saving for their retirement in respect to both income and healthcare.
- Welfare costs peaked at around \$10 billion. By 2020, the net direct cost to government in 2008 terms had fallen to below \$2 billion.
- Working age beneficiary numbers had fallen by 70 percent.
- The 4 months' deductible faced by beneficiaries where they largely meet their own costs via a drawdown on their superannuation or receive other entitlements has dramatically changed New Zealanders' behaviour.
- Welfare has largely been privatised via insurance (similar to home insurance). Income levels as a result of sickness, accident, or unemployment largely determined by cover taken out by individual New Zealanders but cannot fall below existing benefit levels.
- The move back into the workforce of more than 200,000 New Zealanders has not only lowered the cost of government but has also given a significant boost to output and GDP.
- Welfare provision (sickness, accident and unemployment cover) is like any other business in New Zealand with new people entering and/or being taken over all the time.

- Providers' income is dependent upon the price and quality of their policies and the service they provide their customers.
- Brokers and employers help consumers make informed decisions.
- Providers continually advertise their wide diversity of products to attract or retain customers, emphasising quality of service (e.g. special assistance provided after an accident) and price.
- Consumers have received substantial tax reductions to enable them to buy the risk cover they need.
- Consumers are now the key players in the welfare risk area as a result of their buying power.
- Administrative costs have fallen dramatically as a result of the move to a market based system rather than a bureaucratic one.

## Chapter 16

### A secure New Zealand in retirement

#### Principle

Enable all New Zealanders to be able to save enough during their working life to be able to comfortably look after themselves in retirement.

#### Today's situation

- 20 percent of adult New Zealanders have no savings; in fact they owe more than they own.
- 50 percent of adult New Zealanders have little or no savings.
- Majority of current retired population have not saved during their working life, they depend totally on the state for their income.
- Huge ownership (capital) divide within New Zealand society.
- Number of workers to retirees is shrinking rapidly.
- Taxes for superannuation and healthcare exceed 50 percent of direct personal taxation.
- Unfunded benefits exceed 100 percent of GDP.
- Incentives to save are poor, those showing self-reliance are often penalised.
- Majority of New Zealanders believe our retirement arrangements must be changed.
- To many, dependency is reality; while personal responsibility is a harsh fantasy.
- The current system encourages many to try to get a free ride at the expense of others.
- Aim is to get more out than we put in.
- New Zealanders have no control over what or how their money is spent.
- Sense of hopelessness prevails when it comes to expecting people to provide for themselves.
- Increased willingness to consume in the face of long-term dis-savings.
- Little principled foundation to current system.
- Distortions are often the name of the game.
- Number of people retiring each year will exceed 50,000 by 2025.

#### All of this despite:

Change after change after change to the current system.

#### Key principles to solving existing retirement problems

##### One: Opportunity

Enable all New Zealanders of working age to open a savings account in their own name.

**Two: Equality**

Every person, regardless of family income or current circumstances (e.g. unemployed), should receive the same tax reduction/credit from the government. If you don't work, you spend the tax credit before receiving anything from government.

**Three: Choice**

Individual New Zealanders would have ownership and control over their retirement fund allowing them to accumulate wealth and, if they so decide, pass it on to their heirs.

**Four: Open marketplace**

Retirement provision (income and healthcare) like any other business would be provided in an open marketplace where individual New Zealanders would select the type of savings scheme best suited to their individual and family needs.

**Five: Transition**

Needs to take into account that the change from one system in retirement to another would take 40 years and ensure that during this time, retirees' income gradually increases year by year over and above what it would be under the current system.

**Six: Voluntary**

Participation in the new system for existing workers would be voluntary, but those choosing not to join would continue to pay current levels of tax (i.e. not receive tax reduction or tax credit) going to those who do join.

**Seven: Realistic**

Reform must be cost effective and reduce the unfunded liabilities of the current system.

**Eight: Security**

Benefits of current retirees and those close to retirement must be protected.  
Rate of return on investments made must guarantee an adequate minimum income in retirement.

**Nine: Regulation**

Retirement authority would approve companies wishing to enter retirement savings business.

**Ten: Income**

Ensure New Zealanders can enjoy a level of income in retirement far greater than what is currently the case.

**Policy details**

- A tax reduction or tax credit of \$3,000 - \$4,000 a year would be provided.
- That \$3,000 - \$4,000 would be increased by the rate of inflation every year.
- Available to New Zealand citizens between the age of 18 and 65 years of age.
- Must be invested with organisations that have retirement authority approval.

- Those who wish to do so can make the choice to continue to pay current levels of tax and be covered by current government benefit system. These payments would come from the money they could have had in their own account.
- The transition to the new retirement system would take 40 years when 90 percent+ of New Zealanders are expected to have sufficient savings to provide for themselves.
- Capital after 47 years in the workforce for those who make no drawdown on that capital would be approximately \$1.8 million or \$850,000 in real terms (see Chart 1).
- During the transition retirees would receive two pensions, one based on the fund accumulated via tax savings each year. Second a percentage of the existing government benefit, dependent on the number of years individual has been eligible to be a member of new retirement system (see Chart 2).
- Minimum combined benefit during transition to be at least what people get today but in most cases will be considerably more.
- Individuals on welfare or attending tertiary institutions would draw down on their \$4,000 tax credit each year before any government contribution to their ongoing assistance e.g. an 18 year old who draws down his/her \$4,000 forgoes a nominal capital sum of around \$90,000 at 65 years of age.
- **Paid for by a mix of the following:**
  - Existing surplus
  - Transfer existing Super Fund into individual accounts over the first 5 – 6 years.
  - Reduction in welfare payments as people move back into the workforce.
  - Reduction in tertiary education costs resulting from some people deciding to keep the \$4,000 made available to them for superannuation rather than spend it on unnecessary tertiary education (marginal students).
  - Extra government tax revenue as a result of move back into workforce of beneficiaries and students.
  - Reduction in unnecessary government expenditure elsewhere.
  - Reduction in government interest payments (see Government asset ownership – P97-99).
  - Increase in government income direct and indirect via growth as a result of increased workforce participation.

Chart 1

<b>Superannuation - Married (both partners qualify)</b>				
<b>Retirement Superannuation &amp; Healthcare Fund</b>				
<b>Contributions at \$4,000 a Year Real &amp; 5% Interest (Real) 2% Inflation)</b>				
<b>1 Year</b>	<b>Start Year</b>	<b>Contribution</b>	<b>7% Interest</b>	<b>Balance end year</b>
		<b>\$4,000 Real Each Year</b>		
1		4,000	280	4,280
2	4,280	4,080	440	8,800
3	8,800	4,160	760	13,720
4	13,720	4,240	1,110	19,070
5	19,070	4,320	1,480	24,870
6	24,870	4,400	1,890	31,160
7	31,160	4,480	2,340	37,980
8	37,980	4,570	2,810	45,360
9	45,360	4,660	3,340	53,360
10	53,360	4,740	3,900	62,000
11	62,000	4,830	4,510	71,340
12	71,340	4,930	5,160	81,430
13	81,430	5,030	5,880	92,340
14	92,340	5,130	6,640	104,110
15	104,110	5,230	7,470	116,810
16	116,810	5,330	8,370	130,710
17	130,710	5,640	9,340	145,690
18	145,690	5,750	10,400	161,840
19	161,840	5,870	11,530	179,240
20	179,240	5,980	12,750	197,970
21	197,970	6,100	14,070	218,140
22	218,140	6,220	15,490	239,850
23	239,850	6,340	17,010	263,200
24	263,200	6,460	18,650	288,310
25	288,310	6,590	21,110	316,010
26	316,010	6,720	22,360	345,090
27	345,090	6,860	24,400	376,350
28	376,350	7,000	26,590	409,940
29	409,940	7,140	28,950	446,030
30	446,030	7,280	31,480	484,790
31	484,790	7,420	34,190	526,400
32	526,400	7,570	37,110	571,080
33	571,080	7,720	40,250	619,050
34	619,050	7,870	43,610	670,530
35	670,530	8,030	47,210	725,770
36	725,770	8,190	51,090	784,950
37	784,950	8,530	55,240	848,720
38	848,720	8,700	59,710	917,130
39	917,130	8,870	64,500	990,500
40	990,500	9,050	69,650	1,069,200
41	1,069,200	9,230	75,170	1,153,600
42	1,153,600	9,420	81,080	1,244,100
43	1,244,100	9,610	87,430	1,341,140
44	1,341,140	9,800	94,220	1,445,160
45	1,445,160	10,000	101,510	1,556,670
46	1,556,670	10,200	109,320	1,676,190
47	1,676,190	10,400	117,710	1,804,300

Chart 2

(1)				(2) Plus likely capital sum earned to date	
Years to retirement	Age	Reduction in pension	Level existing pension	Capital sum	
				Individual	Married couple
1	63	Zero	100%	4,280	8,560
2	62	"	100%	8,800	17,600
3	61	"	100%	13,720	27,440
4	60	1%	99%	19,070	38,140
5	59	2%	98%	24,870	49,740
6	58	3%	97%	31,160	62,320
7	57	4%	96%	37,980	75,960
8	56	5½%	94½%	45,360	90,720
9	55	7%	93%	53,360	106,720
10	54	8½%	91½%	62,000	124,000
11	53	10%	90%	71,340	142,680
12	52	12%	88½%	81,430	162,860
13	51	14%	86%	92,340	184,680
14	50	16%	84%	104,110	208,220
15	49	18%	82%	116,810	233,620
16	48	20%	80%	130,710	261,420
17	47	23%	77%	145,690	291,380
18	46	26%	74%	161,840	323,680
19	45	29%	71%	179,240	358,480
20	44	32%	68%	197,970	395,940
21	43	35%	65%	218,140	436,280
22	42	39%	61%	239,850	479,700
23	41	43%	57%	263,200	526,400
24	40	47%	53%	288,310	576,620
25	39	51%	49%	316,010	632,020
26	38	55%	45%	345,090	690,180
27	37	59%	41%	376,350	752,700
28	36	63%	37%	409,940	819,880
29	35	67%	33%	446,030	892,060
30	34	71%	29%	484,790	969,580
31	33	75%	25%	526,400	1,052,800
32	32	79%	21%	571,080	1,142,160
33	31	83%	17%	619,050	1,238,100
34	30	87%	13%	670,530	1,341,060
35	29	91%	9%	725,770	1,451,540
36	28	95%	5%	784,950	1,569,900
37	27	99%	1%	848,720	1,697,440
38	26	100%	-	917,130	1,834,260

**Note:** (1) Retiree cannot get less than what they receive today.  
(2) Full health support in retirement given to people in this category.

(1) Sets out the reduction in existing government pension that will take place dependent on the number of years you have until your retirement.

(2) Sets out likely capital sum you will have available to you from your superannuation savings.

### **This is perhaps the most infuriating ad you will ever read unless you are 21**

What you are about to read will fascinate you, or infuriate you, or both. It will also present you with a delicious paradox by proving that a person who decides to stop saving can accumulate considerably more than someone who decides to save diligently all the way to 65. Come again? Let's put it another way. This insight is about the saving ethic and as with its cousin, the work ethic, the underlying truth is that saving smarter beats saving harder. Disciplined saving is the ethic's essence. Discipline is even more important than dollars when it comes to producing a result.

You will probably wish someone had explained all this to you when you were young enough to really learn and profit from it. Still - and this is your consolation - you can be the someone who explains it to someone else; to a young person who still has the time to profit from it. It? 'It is the magic of compound interest', and it isn't really magic at all - it's simple mathematics. But magic for most is more intriguing than maths, so let's think of it as magic.

Imagine you are 21 again. You decide, because someone explained this magic to you, to start with \$5,000 and then add to it at the rate of \$1,000 a year - until you turn just 30. Then you stop saving altogether and leave your nest egg alone until you turn 65. Let's say, for the sake of this comparative exercise, that you earn an average return of 8 percent p.a. (after fees and taxes) which you always reinvest. Let's say again for the sake of the comparison, that inflation is 0 percent (so your real return is a healthy 8 percent).

Now imagine an alternative scenario. Again, you are 21 but decide to do nothing about saving until you turn 31. At 31 you put aside \$5,000 - adding to it at the rate of \$1,000 a year until you turn 65, again reinvesting the 8 percent p.a. average return. You figure you will more than make up for the lost time by saving harder i.e. for 35 years rather than 10 years.

Which is the better strategy?

The 10 year saving plan, in which you will have invested \$14,000 (a \$5,000 initial contribution then \$1,000 a year) will reap \$332,413. The 35 year plan, in which you will have invested \$39,000 - nearly three times as much - will reap considerably less: \$227,077

Here are the basic calculations for you to check. The bold type represents those years when you contribute \$1,000. The return, remember, is a constant 8 percent p.a.

21 years old	<b>5,000</b>	35 years old	33,034	<b>11,309</b>
22 years old	<b>6,400</b>	36 years old	35,677	<b>13,213</b>
23 years old	<b>7,912</b>	37 years old	38,531	<b>15,270</b>
24 years old	<b>9,545</b>	38 years old	41,614	<b>17,492</b>
25 years old	<b>11,309</b>	39 years old	44,943	<b>19,891</b>
26 years old	<b>13,213</b>	40 years old	48,538	<b>22,483</b>
27 years old	<b>15,270</b>	41 years old	52,421	<b>25,281</b>
28 years old	<b>17,492</b>	42 years old	56,615	<b>28,304</b>
29 years old	<b>19,891</b>	43 years old	61,144	<b>31,568</b>
30 years old	<b>22,483</b>	44 years old	66,036	<b>35,093</b>
31 years old	24,281	45 years old	71,319	<b>38,901</b>
32 years old	<b>6,400</b>	46 years old	77,024	<b>43,013</b>
33 years old	<b>7,912</b>	47 years old	83,185	<b>47,454</b>
34 years old	<b>9,545</b>	48 years old	89,841	<b>52,250</b>
49 years old	97,028	57 years old	179,592	<b>116,936</b>
50 years old	104,790	58 years old	193,960	<b>127,291</b>
51 years old	113,174	59 years old	209,476	<b>138,474</b>
52 years old	122,227	60 years old	226,234	<b>150,552</b>

53 years old	132,006	<b>82,639</b>	61 years old	244,333	<b>163,596</b>
54 years old	142,566	<b>90,251</b>	62 years old	263,880	<b>177,684</b>
55 years old	153,971	<b>98,471</b>	63 years old	284,990	<b>192,899</b>
56 years old	166,289	<b>107,348</b>	64 years old	307,790	<b>209,331</b>
			65 years old	332,413	<b>227,077</b>

The table shows the dramatic effect that compound interest can have on a disciplined saving plan, even when you decidedly stop saving. Imagine now a savings plan that goes beyond regular saving into regular investment:

## Chapter 17

### Retirement 2020

This chapter looks at what retirement income would look like on the assumption New Zealand introduced the policies in the previous chapter.

- Politicians' role in the field of superannuation is no greater than it is in any other industry apart from ensuring all New Zealanders have the money to save via taxation changes.
- Competition between superannuation providers has raised service and performance levels, lowered costs of administration, and ensured diversity of choice amongst providers.
- New Zealanders are now investing their own money rather than relying on the government.
- Government expenditure on providing retirement income has already been reduced with further dramatic reductions to come over the next 30 years.
- Retirees in 2020 are much better off than their counterparts were in 2008.
- Greater security in retirement for all is now the case.
- Household savings ratios amongst the least well off have increased dramatically.
- All retirees now have a great incentive to back low inflation policies.
- The fiscal problems which New Zealand faced in 2008 as a result of a rapidly ageing population have been avoided (healthcare costs and superannuation).
- Politics around the provision of income in retirement which so dominated politics from the 1970s on have been solved as a result of the policies implemented from 2008.
- Superannuation funds are now a major source of funds for long-term capital markets as they have been in Australia since the early 1990s.
- Hard working low-income earners have been the major winners under the new system.
- Transitional costs have been dealt with in a fair way with 90 percent+ of new retirees better off than they would have been under the old system, with no one worse off.

## Chapter 18

### Government asset ownership

#### Objective:

A more productive New Zealand.

#### Principle

Private firms are generally more efficient than their counterpart state-owned firms.

#### Today's situation

- The yearly cost of government ownership is around \$1,000 per adult New Zealander or to put it another way, around \$150,000 each in retirement capital, if this \$1,000 was saved.

Based on World Bank estimates, New Zealand could gain over \$1 billion a year or around 1% of annual gross domestic product (GDP) by privatising SOE's. That makes no allowance for assets held by local government which total around \$50 billion.

- This is simply the difference in the return the assets would earn in the private sector as opposed to what they earn today in the public sector.

The reason for this is clear and includes:

- When property is owned by the government, the incentive to take good care of it is much weaker (e.g. government owned housing).
- The government has less incentive to develop its assets as compared to the private sector (e.g. land that lies idle in the public sector would be developed by the private sector).
- Government has less incentive to use the assets they own in a way that is beneficial to others. Unless people in the private sector work out how to make their assets and services more beneficial to others, they make no gains.
- Government has less interest in the wise development and conservation of their assets for the future than the private sector does.
- Private sector owners also pay more attention to future expected gains, which leads to better conservation via property rights (trees).

#### Other issues include:

- Government owned SOE's are slower to adopt new technologies than their private sector counterparts.
- While worldwide privatisation is now accepted as a result of the benefits seen from the changes in various countries, New Zealand, under the current government has moved in the opposite direction.

- Clear evidence that privatised New Zealand firms (Telecom and Tranz Rail) have achieved greater productivity gains during the 10 years to 1998 than the five SOE's which remained under government ownership. The study also noted that labour productivity (i.e. output per employee) of the five SOE's typically increased following corporatisation and then declined leading to the conclusion that performance improvements in SOE's are difficult to "lock in"

### **Seven key principles when adopting privatisation for the benefit of the country**

**One: Competition**

Deregulation of industry prior to privatisation is important because it keeps the privatised firms honest. Low-income earners in particular, will benefit from having access to better quality goods and low prices.

**Two: Transparency**

Government conducts privatisation process in a fair and open manner.

**Three: Openness**

Allowing the greatest number of buyers, including foreigners, to take part.

**Four: Efficiency**

Demonstrate how privatisation will lead to greater efficiency as a result of a more open and competitive product marketplace.

**Five: Productivity**

Ensure proceeds from sales are used to improve New Zealand's total output.

**Six: Information**

Ensure public are kept fully informed during the sales process including what the government is trying to achieve out of the sales. Information relating to foreign ownership, employment and price will be particularly important.

**Seven: Consumer**

Demonstrate how the changes will be to the benefit of consumers, taxpayers and the economy as a whole.

### **Policy approach – a broad outline**

- **Ensure best use of resources**  
This will generally be achieved by privatisation which will lead in turn to all New Zealanders being better off.
- **Achieve best price possible**  
This will generally be achieved via an open and competitive sales process where anyone in the world is able to bid (i.e. 1980s process).
- **Regulation**  
Ensure appropriate sector/industry regulations are in place, without the conflict that always exists when government is both owner and regulator.
- **Jobs**  
Help create more jobs (note total employment in New Zealand has grown by approximately 400,000 since 1988 when privatisation began)

- **Social outcome**  
Continue to ensure that as a result of privatisation, consumers and workers overall are better off (World Bank studies show clearly they are).
- **Prices**  
Continue to ensure prices fall in real terms as they have in previous privatisation.
- **Taxation**  
Continue to ensure businesses are subject to taxation, so that distortions the tax system imposes on business decisions are minimised.
- **Widespread ownership**  
Look at the possibility of using shares in government-owned businesses for purposes of achieving widespread ownership.
- **Contracting out**  
Look at the options and possibilities of contracting out services currently provided by government employees. Where this has been done by central and local government, savings of 30 percent+ have been achieved. The risk is that the contract is not well specified and/or monitored.
- **Private funding of public services**  
Look at this option while ensuring that, if introduced, the private sector takes its fair share of the risks.

## Chapter 19

### Taxation

#### A more incentivised New Zealander

##### Principle

A tax system that encourages energy, thrift and hard work.

##### Today's situation

- Marginal tax rates are too high, particularly for families.
- Too much wasteful private sector effort is once again being devoted to devising ways around New Zealand tax laws.
- System increasingly seen as unfair.
- Tax scale has become too progressive, it needs to be flattened.
- Interface between tax and welfare systems is a mess as a result of recent changes.
- Tax brackets have not changed to reflect inflation.
- Government expenditure is growing at an alarming rate and, as a result, so too is the tax burden.
- Current tax rates mean average income earning families in particular cannot save, after meeting their weekly outgoings.
- Average net ordinary weekly wages have not increased to any extent since Labour took office in 1999. In other words, people are standing still after allowing for inflation and taxation.

##### All this despite:

Improved growth over recent years.

##### Key principles to solving this situation

A good tax system should aim to achieve the following:

- **Economic efficiency** (low flat tax rates most likely to achieve this).
- **Equity**

**Horizontal equity** – individuals earning the same income and in the same position should pay the same tax.

**Vertical equity** – individuals earning higher income should pay more tax but not higher tax rates.

- **Simplicity and certainty**
- **International compatibility**  
The tax system should not encourage for example, unintentional incentives to transfer capital from one country to another.

### Policy approach – a broad outline

The key determinant of the level of taxation and the economic efficiency of taxes is the amount of general government expenditure.

The policies outlined in earlier chapters immediately remove 20,000 million dollars (\$20 billion) of current government expenditure and transfers it to the private sector with huge resulting efficiency gains. A further 8,000 million dollars (\$8 billion) would be removed over time.

### The elements of reform

1. A tax-free income threshold would be established for taxpayers between the age of 18 and 65 which would reduce their current tax by the amount set out in two below.
2. The following extra income would be added to taxpayers' income between the age of 18 and 64.

	<b>Via wage package</b>
Single	\$ 6,000
Married couple (one partner working) no children	\$11,000
Married couple (both working) no children	\$12,000
Married couple (both working) one child	\$12,600
Married couple (both working) two children	\$13,200
Married couple (both working) three children	\$13,800
Married couple (one parent working) one child	\$11,600
Married couple (one parent working) two children	\$12,200
Married couple (one parent working) three children	\$12,800
Single parent one child	\$ 6,600
Single parent two children	\$ 7,200
Single parent three children	\$ 7,800

Part of this extra income will be available to buy risk insurance with the balance available to be saved towards retirement.

3. A tax credit to cover the cost of education will be made available to all parents to be spent at any school of their choice.

Cost equals average cost of providing public education at the moment.

4. Where the income of the taxpayer exceeds the tax-free income level, then tax would be payable as follows:
  - 21c in the dollar on income above the tax-free income level up to \$38,000 year one
  - 33c in the dollar beyond \$38,000 year one
5. These rates would be reduced to a flat rate of 15c in the dollar over 28 years i.e. at one cent a year on income above \$38,000; 1/3 of 1 cent in the dollar for income below \$38,000 taxed at 21 cents .
6. The tax-free income thresholds would be adjusted each year to take account of inflation.
7. Company tax would fall in line with any reduction in the 33c personal tax rate.
8. Dedicated superannuation and risk insurance accounts in the name of each New Zealander between the age of 18 and 64 would be established.
9. Existing Working for Family payments and tax credits would be continued.

## **Chapter 20**

### **Summary**

#### **The benefits of reform**

- Failing public services are taken off the "cost plus" escalator of ever increasing taxes.
- Higher incomes in retirement (up to four times once fully operational).
- Better healthcare and schools.
- Parents and patients have real choice.
- Less government welfare - vote welfare (not including retirement benefits) would reduce by 50 percent in year 1.
- Lower taxes and lower marginal tax rates.
- Lower crime.
- The disadvantaged get a better deal because for the first time they have the same entitlements as everyone else and so get treated like everyone else.
- Dynamic innovative health, school and welfare sectors which add to the country's economic growth rather than dragging it down.
- Improved working conditions. Staff are no longer accountable to a public sector bureaucracy but to patients and parents and rewarded accordingly.
- Politicians no longer manage public services such as health, education and welfare.
- Each generation now providing for themselves.
- Poverty traps have been eliminated.
- Power has moved away from large institutions (e.g. Accident Compensation Corporation) and impersonal bureaucracies (Health, Education, Welfare departments) to individual consumers.
- Major tax reductions have enabled consumers to buy products such as health and education for themselves in an open marketplace.
- Innovation can be seen everywhere.

# Honourable Sir Roger Douglas

Roger Douglas, as Minister of Finance in New Zealand, won an international reputation as the strategist and driving force responsible for the reform of the country's economy, from 1984 to 1988.

Sir Roger entered Parliament in 1969. He first became a Cabinet Minister in 1973, in the term of the Third Labour Government 1972-1975. He held the portfolios of Broadcasting and Post Office and later Housing.

In 1982, Sir Roger was Shadow Minister of Trade and Industry and associate Shadow Minister of Overseas Trade. He became Shadow Minister of Finance in 1983, and Minister of Finance from July 1984 when the Fourth Labour Government was voted into office.

His period as Finance Minister saw major deregulation of New Zealand finance markets, the floating of the New Zealand dollar, the corporatisation of State trading departments and the adoption of privatisation policies, and dramatic reforms of the taxation system.

In 1985 he was awarded the Euromoney Magazine Award for Finance Minister of the Year; in 1996 he was awarded the Max Schmidheiny freedom prize in Switzerland for his contribution to the preservation and development of a free social and economic order; in 1997 he was awarded the Ludwig Erhard Prize of Economic Journalism; in 2002 he was awarded the Friedrich von Hayek medal given to outstanding politicians, entrepreneurs and scholars who stand for the aims and values of a free society; in 2008, in Paris, he was awarded the Turgot Freedom Prize awarded to an international Statesman for a major contribution to the advancement of freedom.

Since leaving Parliament in 1990, Roger Douglas has been the Managing Director of Roger Douglas Associates, an international consulting firm, specialising in advice on economic restructuring and structural adjustment. He is a founder member of ACT NZ. Director of Brierley Investments Ltd 1990 - 1999 (Chairman 1998), Director John Fairfax Holdings Ltd 1997-1998, Director Aetna Health NZ Ltd 1995 - 1999.

He has done a considerable amount of work internationally, for The World Bank and private clients and countries visited include Brazil, Hungary, Canada, United States of America, Russia, Pakistan, Mexico, Austria, Fiji, the Philippines, Vietnam, Australia, China, South Africa, Hong Kong, Singapore, The Netherlands, England, Sweden, Japan, Thailand, Peru and India.

His publications include:

*"There's Got to be a Better Way"* (1981)  
*"Toward Prosperity"* (1987)  
*"Unfinished Business"* (1993)  
*"Completing the Circle"* (1996)  
*and various articles.*

This publication 'Just do it' was written because Roger Douglas believes strongly that if New Zealand implemented the policies outlined in his paper 'Just do it', by 2020 New Zealand would have gone a long way to catching up with Australia in terms of per capita income and moved well ahead of them in healthcare, education and welfare.