POLICY DETERMINES PERFORMANCE
- the New Zealand case –

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1. INTRODUCTION

People around the world typically aspire to a universal set of ambitions:

- they want to enjoy a rising standard of living and access to jobs
- they want to live in a country that confers on them the opportunity to foot it in the highly competitive world dominated by the forces of globalisation and technology
- they want access to decent health, housing and social services
- they want to live in a community that is safe
- they want to know that their private property and political rights will be respected
- they want to enjoy an environment that is cared for
- they want to know that they will be secure in their old age

In short they want to experience the qualities of good governance and good policy.

Each country has a different starting point, different cultures and different constraints. The points of difference are not a barrier to realising the universal ambitions documented above. The differences don't change the **design** of the policies necessary to get there; they simply dictate the **emphasis** and the **execution**. If you like, the design is the policy "hardware", whereas the emphasis and the execution is the policy software.

1.1 Policy design – the hardware

The characteristics of the policy settings most consistent with achieving the stated ambitions are well known.

1. Monetary policy

Credibility hinges on operational independence for the central bank, a track record of successful inflation fighting, and a transparent, accountable and uncompromised commitment to the cause of price stability

2. Fiscal policy

Demonstrating fiscal responsibility requires the formulation of a credible and long term fiscal strategy, the publication of explicit targets for prudent fiscal policy, the exercise of expenditure discipline, the disclosure of proper financial accounts and openness in the conduct of fiscal policy at all levels.

3. Labour market flexibility

Full employment is only achievable if first and foremost, people are free to work. Bringing down the barriers to jobs requires ridding the labour market of many extensive and often long-standing rigidities.

4. Open and competitive markets

While high and distortionary taxes are known impediments to performance, just as damaging are high levels of protection, and heavy regulatory burdens. Comprehensive deregulation of markets needs to be conducted on the basis that a level playing field will be created, and competitiveness assured by sound anti-monopoly policies. Tariffs should be recognized as a tax on exports, and a timetable should be developed to achieve, first, low and uniform tariffs, followed by a programme to reduce levels to zero.

5. Taxation

All good tax policy starts first by addressing the two key public expenditure issues; lowering the quantity of public spending and lifting its quality. Then the tax system should be designed in a way that is least distorting of business decisions and most productive of growth. That argues for a broad-base, low-rate tax regime.

6. Education

It is well recognized now that a nation's wealth creation capacity depends much more on the level of it's intellectual capital, than it does on either its physical or financial capital. The performance of the education system is vital to both economic and social performance. Education systems in most countries are state owned and run monopolies. They are liable to suffer from the same defects as any other monopoly – poor incentives for performance, lack of accountability to consumers, wastefulness in the use of resources. There are twin requirements for a modern education system; universal access and world class performance. Reforms to best advance those objectives will involve the promotion of supply-side competition and the availability of choice on the demand side.

7. Health

In a field of constant tension between the supply of ever expanding and expensive remedies and the never ending growth in demand, the priority is to both maximise the efficient use of health resources and to maximise the choice and the responsibility of the user of health services. That argues for integrated health care, innovation and competition on the supply side, and funder choice on the demand side. The funding will typically be a mix of state funds, insurance money and private funds.

8. Housing and Social Services

Decent housing and social services are key ingredients of a decent society. The role of the State should concentrate on funding *access* to these facilities and services rather than providing them through government owned, run and funded regimes. The decision to fund access should be through an individually conferred entitlement, rather than by state monopoly provision.

9. Law & Order

An independent judiciary, free from corruption or state dictate is fundamental to the integrity of the legal system. Equally important is the timely administration of justice which calls for the efficient conduct of courts. Safety in society is only achieved if:

a. criminals know there is a high likelihood of being caught
b. the criminal code is well designed and adhered to
c. the corrections system is based on "tough love"

Increasingly a zero tolerance [or broken windows] policy [face the consequences of the first offence] is proving to be successful in demonstrating a serious intent to nip crime in the bud.

10. Security in retirement

Pay-as-you-go taxpayer funded retirement income regimes are now known to be unsustainable with an aging population. Increasingly the "three pillars" policy is being adopted involving:

- an insurance type pillar – a private sector retirement scheme
- a privately funded pillar where the private savings supplement a retirement scheme
- a state funded pillar to provide a social safety net for those who need it [the public redistribution pillar]

11. State Reform

State reform has involved twin tasks:

a. **Downsizing** the State, determining what the State should not properly do, leading to a programme of deregulation and privatisation.
b. **Modernising** the State; where the State has a core role ensuring that its responsibilities are discharged in the most effective and efficient manner.

This essentially involves moving to a performance management system where:

- Public servants are hired as professionals on performance contracts and for fixed terms
- Public finances are managed on a proper balance sheet basis
- Results based budgeting is adopted

1.2 Policy emphasis and execution - the policy software

Policy emphasis will be dictated by the country reality. For Argentina, the cause of defeating hyperinflation prevailed as the top priority. For the United Kingdom the grip of trade unionism made labour market flexibility a top priority. For much of Asia securing sound financial systems and the liberalisation of markets have been the things that matter most.

For **New Zealand**, our reality is different again. We are a small geographically isolated country with a traditional economic reliance on land based commodity production. Realising our ambitions will require us to be more competitive and clever, just to overcome the disadvantage of size and distance.

This paper will focus on New Zealand's recent quest for better performance through better policy. It is a story with three distinctive chapters, all of which offer salutary lessons for other countries. But before turning to the New Zealand case, finally a word about execution.

While constitutional frameworks and electoral systems differ, successful policy reform has common characteristics.

1) *Leadership* - each nation needs a "Caesar", a champion who develops a vision that excites the citizens and persuades them of the merit of change
2) *Sense of urgency* – drift and denial are the twin enemies of successful transformation
3) *A team of believers* – the "power of one" is not a formula for successful transformation. A guiding coalition within the Government and reaching out into opinion leaders from the private sector and from civil society is essential to create a constituency for change.
4) *A "General" who is responsible for the implementation of the reform strategy* – the movie "The Gladiator" is a powerful story that demonstrates a winning combination at work; the leader and his general. Every Caesar needs his Maximus [who incidentally is played in the movie by a kiwi actor, Russell Crowe]. Every leader with an ambition to reform must ensure that a "general" is installed in the administration. That person may typically be the Minister of Finance, although in some countries a special Minister of Reform portfolio has been created. The General is the person who must make good the leader's reform promise.
5) *"Seeing is believing"* – Citizens will be sceptical of reform until they can see the dividends. Generating short term wins should be at the forefront of the reformers minds as they think about the pace, the sequence and the execution of the changes.
6) *Communications strategy* - Reform is a demanding task and it is all too easy for the reformers to become so absorbed with planning the design and execution that they neglect the communications imperative. In the case, say, of a big utility privatisation, it's not just enough to sell the asset; reformers have to put equal emphasis on selling the story of why the privatisation makes economic and social sense.

2. THE NEW ZEALAND CASE

There are three distinctive phases in New Zealand's recent economic history.

I. The pre-reform phase – 1950 – 1984
II. The reform phase – 1984 – 1993
III. The coalition phase –
   a. Policy drift 1993 – 1999, a National led coalition
   b. Policy regression 1999 -, a Labour led coalition

It is not the intention of this paper to traverse in policy detail the first two phases. An excellent snapshot of these two periods can be found in a March 2000 Reserve Bank Bulletin article entitled "The Process of Economic Growth in New Zealand" [1]

Rather, the purpose of this paper is to draw lessons from those first two phases, reflect the current reality of the third phase and offer a perspective on where to next.

2.1 Phase I – the pre-reform period

Like many other countries New Zealand for too long a period engaged in a studious refusal to reform. Instead of facing up to the structural impediments to better performance, New Zealand practiced the politics of postponement. As the productivity and earning power declined, New Zealand borrowed heavily to sustain the standard of living and fund an increasingly bloated and inefficient state. A once wealthy country was increasingly thrown around by events, most significantly the United Kingdom's entry into the EEC in the 60's and the oil shocks in the 70's.

Doing nothing only served to increase our vulnerability. Crisis was ultimately the catalyst for change.

Lessons from this era:

Policy settings that:

a. maintain a big inefficient state with a high level of intervention
b. prefer protectionism and privilege

will

c. cause a misallocation of resources

and

d. fail to lift productivity levels

leading to

e. chronic state debt and deficits

and

f. chronic un-competitiveness

and

g. a suppression of innovation and entrepreneurship

Only structural reforms can break this vicious cycle.

There is a "cost" to reform in the sense that the process of Schumpeter's [2] "creative destruction" occurs, yet the cost of doing nothing is far higher.

[1] http://www.rbnz.govt.nz Volume 63, No 1,

[2] Joseph Schumpeter: Capitalism, Socialism and Democracy

2.2 Phase II – the reform period

For two brief and unprecedented periods, first a Labour government and then a National government engaged in a programme of pioneering market-style reform. Much of the reform was designed to get New Zealand off the back foot -

- To address our chronic un-competitiveness, markets were liberalised, and the tax system reformed
- To break our inflationary habits, the currency was floated, the Central Bank made independent, and an inflationary targeting regime was adopted
- To downsize and modernise the State, privatisations were undertaken, the public sector was halved in size and a performance management regime was instituted in the State sector
- To fix the twin problems of low levels of productivity and high levels of hidden unemployment, the labour market was deregulated
- To deal with persistent state debt and deficits, public expenditure levels were reduced, surpluses secured and a Fiscal Responsibility Act passed to institutionalise responsible, transparent and accountable fiscal policy

While the rise in growth and employment levels was impressive, much of the reform simply stopped the rot, halted the decline.

Lessons from this era:

- Breaking the cycle of poor performance largely lies with putting one's own house in order
- Good governance and good policy are the two crucial drivers of better performance
- The willingness to be a policy pioneer marked New Zealand out as a centre of excellence, attracting investment, boosting confidence and activity levels
- New institutional rules of the game particularly in monetary and fiscal policy locked in the reforms
- Maintaining reform momentum is of the essence, but easier said than done
- The economics of structural reform are easy; the politics are hard

2.3 Phase III – the coalition era

First policy drift under a National led coalition, then policy regression under a Labour led coalition.

2.3.1 Policy drift: National's legacy

In 1993, in part driven by notions of fairness and in part a reaction to reform, New Zealander's opted to move from the first-past-the-post Westminster system to a proportional regime modelled on the German MMP system.

While the first MMP election was not conducted until 1996, a de facto proportional modus operandi was practiced by National from 1993 – 1996. National went on to lead the first formal MMP style government from 1996 – 1999. This was an era of policy drift where day to day expediency prevailed, costing both the country its potential and ultimately the National Party its power.

In essence there was a fatal combination of on the one hand, politicians reverting to business as usual and putting politics before policy, and on the other a new proportional regime where the constant quest for numbers meant only the lowest common denominator could prevail.

By election time in November 1999 enough voters had concluded that despite the economy still being in relatively good shape, the incumbents needed to be taught a lesson for their expediency, their lack of energy and ideas, and their management incompetence.

2.3.2 Policy regression: Labour's legacy

The advent of a new Labour led coalition signalled a big break with the prevailing orthodoxy since 1984.

Many were blind-sided by the shift. They either believed that much of the platform was simply the rhetoric of opposition, or that in office a Labour government in 2000 would be either a replica of Labour circa 1984 or operate in the style of the Social Democratic governments of Europe. Many thought that much of the ill-considered platform would be moderated by official advice, or that in execution of Labour's programme would "simply tweak" in a marginal way the inherited policy template.

While experienced political people like myself warned of the full force of Labour's likely policy regression, we were dismissed as having a political axe to grind.

How wrong events proved this benign view to be. It has come as a shock for many to learn that not only did Labour in office [aided and abetted by their left-wing coalition partners] believe their rhetoric of opposition, but that they intended to execute the programme irrespective of the results.

I will come shortly to the New Zealand reality circa 2000, but first an attempt to characterise the thinking of this government, and what drives their programme:

- They reject a market style operating system to drive policy
- They are statist and centralist in their orientation and ideology
- They believe the State should be more activist in its ownership, purchase and regulatory interventions
- Wealth redistribution commands priority over wealth creation
- After a 15 year deprivation of power for this ideology, there is a pent-up reservoir of political "pay back". "We won the mandate and that validates our programme" is the mantra. Crudely put it was left to the unlovely Michael Cullen, Minister of Finance, to best express the Government's approach when, at the conclusion of the debate on the legislation to reverse the Employment Contracts Act, he taunted to the Opposition "We won, you lost, eat that". The Cabinet collectively celebrated the passing of the new Employment Relations Act with a rousing rendition of the workers anthem "Solidarity Forever"

The policy regression has been swift and it has been serious

- Higher tax rates for high income earners
- Re-nationalisation of the accident insurance scheme
- Re-centralisation of education and health decision making
- Reversal of the Employment Contracts Act
- Higher public expenditure targeted as a percentage of GDP
- Significant moves away from targeted assistance in tertiary education and housing
- An expensive [and unsustainable] return to universal access to more generous taxpayer funded superannuation schemes
- An announced intention to ring fence surpluses for a dedicated taxpayer funded superannuation fund
- No more privatisations
- Political interference [at the last minute] to prevent foreign investment in New Zealand assets and businesses
- An ill conceived, empirically doubtful and racially based scheme to "close the gaps" between Maori and non-Maori performance

- Introduction of Treaty of Waitangi conditionality into all aspects of Government activity and delivery
- Review of the operation of monetary policy
- Heavy handed commercial and utility codes

The sanctions for such policy deviancy have been equally swift and savage. First the reality circa New Zealand 2000, then the interpretation.

3. THE NEW ZEALAND REALITY – CIRCA 3RD QUARTER 2000

The Labour coalition government has been in office for ten months. They inherited an economy that grew in the last two quarters of 1999 by 2.6% and 2% respectively. The budget was in surplus, business confidence was sound, the currency steady and the jobs market well performed.

The reality ten months on is quite a different picture.

New Zealand beset by unrelieved negatives largely of our own making

Growth:	2000 –	Q1 + 0.6% Q2 - 0.7% Q3 another predicted negative, or at best no growth outcome
Confidence:		at the lowest recorded levels ever
Currency:		the kiwi dollar has slumped 22% against the greenback this year, making it the world's third worst performer. Out of 55 currencies, only Romania and Zimbabwe have performed worse
Stock market:		the top 40 share index has dropped 13.1% in NZ dollar terms. In US dollar terms the index has lost 32.6% making it the world's 10th worst performer
Bond market:		one to three year kiwi bonds have lost 18.9% in US dollar terms this year making them the worst performed bonds
Current Account deficit:		sitting at -7.2% of GDP, only Portugal and Poland have a worse figure
Competitiveness:		from a ranking of 11th in 1996, New Zealand has slipped to 21st in the IMD survey and from 3rd to 16th in the World Economic Forum survey.
Foreign Investment:		overseas holdings of debt securities has fallen by $6 billion in the March year, while bank deposits have grown $12.5 billion. That suggests a foreign flight to cash, but a weak dollar deterring the repatriation of that money. Foreign direct investment is little changed at $63.7 billion, but after a previous average annual growth rate of 15% from 1994 – 1998, only $800 million has been added over the last two quarters in 2000

Migration: kiwis have always been keen travellers. Migration levels however tend to be a good economic barometer. In the reform period inward migration exceeded outward migration. In the policy and regression drift phase that has reversed itself, and net external migration has grown. The absolute number of New Zealander's leaving is at an all time high – 72,083 in 2000. Anecdotal evidence suggests it is not just the young as a category, but the best and brightest who are leaving the country

Economic shifts: in the face of the dollar's dive, exports have started to soar as expected. Export receipts are 27% higher than in August last year. The issue will be the extent to which the shift from the internal to the external sector can occur without being frustrated by New Zealand's wage/price catch-up. The hope is that the movement of resources from the non-tradable sector will systematically and sustainably reduce the current account deficit

4. WHERE DOES THIS END – IN A U TURN OR IN TEARS?

On the election of the Labour coalition I prepared for clients an assessment of what was in store for New Zealand. Having analysed the programme and sensed the left wing determination of the new government, I predicted that the ill-considered approach was bound to end in either a U turn, or in tears.

Ten months on I can be more definitive; it's tears now, but no prospect of a U turn in sight.

Some may think that curious given the international precedent [Mitterand & Schroeder] and the domestic politics which has seen the National Party pull up to level pegging in the polls with Labour already. Sure, Labour are sweating and deploying the full range of weapons as they get backed into a corner. Tactics range from:

- the "let's call a conference" trick – a business conference has been called by the PM for 24 October in a let's listen to business exercise
- shooting the messenger. A young man who dared to call for policies to end the brain drain is demonised and called a "half-wit"
- calling for the heads of critics to roll. Roger Kerr executive director of the NZ Business Roundtable should be sacked for economic sabotage according to the PM. If that were a crime she would be the first to stand accused

The reasons I am persuaded to rule out a U turn lie deep in the psyche of this government.

First their ideology. They are committed re-distributionalists, committed statists and committed collectivists.

Second, their composition. The senior people on the Labour side, PM Clark & Finance Minister Cullen, were the two most trenchant critics of Rogernomics. They have made a political vow to renounce Rogernomics and all its evils as they perceive them. The Labour caucus is dominated by people of this ilk. In the Thatcher terminology, the wets far outweigh the dries.

The Labour Party is reliant on one formal and one informal coalition partner. The formal coalition partner, the Alliance is led by Jim Anderton, now the Deputy Prime Minister, who left the Roger Douglas Labour Party in protest. His party is the epitome of "Old Labour".

The informal coalition partner, the Greens, splintered off from the Alliance but share the same ideology. Their point of difference is the environment and if anything they are more left wing in their economic prescription than the Alliance.

Third, their penchant for self denial. As each and every bad indicator occurs, there is never any sense of ownership for the predicament. The stock answer is either to blame the previous government, events in other countries or the critics. When a party is in collective denial and considers everybody else to be out of step, not them, it is hard to conceive of the circumstance in which a U turn could occur.

Fourth, their refusal to seek or take advice. Helen Clark operates an eerily autocratic regime. Eerie in the sense that it is so reminiscent of the Muldoon era, where last a PM in New Zealand stubbornly refused to face the reality. Besides being PM, Clark doubles as virtually Minister of Everything. Her chief of Staff is arguably more powerful than the Ministers and routinely acts as gate keeper and trouble shooter. Despite some fine professionals serving in the Prime Minister's Department, they tend to be consulted after the event and to proffer damage control advice.

The Minister of Finance has refused to have a Treasury staffer in his office and it shows. The Chief Executive of the Ministry of Economic Development was given 3 hours to comment on the legislation that reversed the Employment Contracts Act, and despite the lack of time his advice was prescient but ignored. There is an exodus of top flight civil servants, unsurprisingly given the degree to which they are routinely sidelined.

Fifth, plain pride. The Government touted themselves here and in international forums as true keepers of the "third way" flame. While others talk the talk of the third way [Blair & Clinton] Labour in New Zealand genuinely see themselves showing the way in walking the walk. They have made their bed with pride; they will now have to lie in it.

Sixth, the "don't worry be happy" spin. As the negative indicators intensify and Labour's constituency starts to hurt as it was always bound to, the Government leadership increasingly takes refuge in the refrain "don't worry, if all else fails, this is a great country to live in – be happy". People who don't swallow that line run the risk of being branded as unpatriotic at best and traitors at worst.

While outwardly unperturbed there are signs of panic beneath the surface:

- Helen Clark has previously voiced strident opposition to a common currency with Australia. Faced with a critical business audience in New York recently she changed her tune and mused that "If the largest countries in Europe see benefit in a currency merger, what is so sacrosanct about the currency of a country with 3.8 million people" [Europeans faced with a sinking currency might have a contrary opinion]. She urged the country not to get hung up in silly notions of sovereignty. Joining the Aussie dollar is no panacea and she knows it, but it is a measure of her desperation.

- Michael Cullen, the Minister of Finance, despite vowing to pace himself fiscally, pre-spent nearly 75% of the $5.9 billion budget booty Labour awarded itself on the election in his very first budget. And that was on the assumption of the continuation of the relatively strong conditions he inherited.
  Having now brought about a rare phenomenon – a collapse of confidence in a high growth phase, quickly leading to recessionary conditions, his fiscal strategy is in tatters. Knowing that fiscal policy will be the next to feel the pressure, a raid on the State Owned Enterprises balance sheets has been instigated. While the Government doesn't yet know how much it can get from the SOEs, the tactic will be to review the SOE's capital structure, review their debt levels and then pressure the SOEs to take on more debt and cough the proceeds by way of a dividend to the Government. It is a trick that can only be played once, but it's a case of any port in a storm. It is just one more sign of the Government's desperation.
- The Labour caucus will pay watching closely as the indicators that hit home in the hip pocket of their constituents deteriorate:
  - Interest rates – they might not like what Don Brash is telling their constituency but they know he means it
  - Employment – unemployment is bound to rise. The Government's policy setting is regressive and the vulnerable will be the first to feel it.
  - Standard of living – a diving dollar should be seen for what it is, a dirty great pay cut. While the distributional consequences will vary there is a significant wealth reversal in aggregate with a depreciating currency

5. REGAINING POLICY CREDIBILITY

In all conscience I cannot end this doleful paper written with heavy heart without proffering some solutions. As I noted at the outset the reform period simply served to get New Zealand off the back foot. Getting New Zealand onto the front foot now calls for fresh political energy and policy endeavour. The front foot means not just a drive for strong growth and a strong currency, but aggressive attention to cultivating ideas and innovation, fostering intellectual capital development and being willing to applaud and reward initiative.

An agenda for putting a "spring in the step" [to quote Tony O'Reilly's remark] of the New Zealand economy would feature the following initiatives. I have deliberately chosen a 5 year time frame as this agenda should be beyond politics.

1. Manage a staged reduction in public expenditure so that in aggregate it did not exceed 30% by 2005.

2. Announce a staged reduction in income and corporate tax starting with a corporate tax rate reduction to 25% in year one, with 12.5% targeted for year 5. Personal tax rates should be reduced in stages to a top rate of 25%.

3. Take the tariff reform programme to completion – zero tariffs by 2005.

4. De-regulate the Producer Boards forthwith

5. Commit to a light handed regulatory regime with the Commerce Commission being the universal competition authority.

6. Recommence privatisations starting with TV, Post and electricity generating capacity.

7. Re-privatise the accident insurance scheme.

8. Allow the freedom to contract for work, abolishing the specialist employment tribunals in favour of the enforcement in the regular court system.

9. Forget the folly of a People's Bank

10. Remove corporate welfare in its entirety. Ireland has demonstrated the wonders of a low corporate tax rate.

That's all the easy and obvious stuff. But an agenda of entrepreneurship and innovation is going to take much more than attention to the economic framework. Matching signals need to be sent in education, health, social and superannuation policies. That's a far tougher proposition, but unless New Zealand gets serious about the development of innovative people and entrepreneurial attitudes we won't realise our potential.

So here are the tough elements of the agenda that will call for the same sort of pioneering effort that we so successfully managed in the previous economic structural reform era.

11. Education – reforms must occur on both the supply side and demand side. On the supply side innovation should flourish. "Let a thousand flowers bloom" involves allowing teachers to own their own schools, creating an array of profit and not-for-profit suppliers. A competitive market best serves the consumer – we know that from other experiences and education is no different.
    On the demand side government funding should be channelled into the hands of the consumer in the form of a pupil entitlement. The consumer should be free to choose where that entitlement is spent in the competitive education system.
    The State would remain a regulator in the form of the curriculum, and a funder in the form of the entitlement, but the delivery and the exercise of consumer preference should be left to the market.

12. Health – faced with ever escalating costs of supply and never ending increase in demand, incentives must be placed on both suppliers and consumers to use health resources in the most efficient fashion possible. For suppliers that means being able to organise delivery in a way that integrates health care, and for consumers to make and face choices in a competitive health market. Again the State should be confined to a regulatory role and to delivering its funding [except in the case of public health and medical education] by way of consumer entitlements.

13. Social entitlements [eg housing and needs based special services] – targeted entitlements to social services are best allocated in a way that gives the consumer maximum choice, and so ensure maximum accountability. Typically the consumer would be supplied by private providers, with the State as regulator and funder where warranted.

14. Superannuation [the political graveyard so far] – for 25 years New Zealand has grappled with securing a credible and lasting superannuation arrangement. Sustainability has to date always been sacrificed on the altar of politics. The latest attempt to "ring fence" surpluses suffers from some well documented defects.
    As the portion of the population aged over 65 increases from the current 12% to 25% by 2050, there is a clear imperative to develop sustainable arrangements. The pretence that that can be met by a taxpayer funded regime is to perpetuate yet another cruel hoax on the population.

A so called state super fund is vulnerable on so many counts:

I. It depends on continuing surpluses, never a sure run thing in the face of competing demands and contracting economic activity
II. It is vulnerable to subsequent political raids by politicians pushed to meet endless "one-off" spending demands
III. It is vulnerable to political direction and dictate in the management and allocation of the fund, leading to sub-optimum returns

Let's face it, growth can be the only guarantee of future income streams and security in retirement. Cullen's Superannuation Fund is a policy that will be as destructive of New Zealand's growth potential as the ill fated "think big" projects which suffered from similar conceptual defects.

Far from being the pioneer, New Zealand should learn from other countries that have grappled with this issue. Here are three realities that will drive any sustainable scheme:

a. Taxpayers cannot and should not be made to fund universal entitlements. For the long term state funded super should be of a social safety net kind. In the transition, the generation for whom it's too late to change should be given a choice:
    i. Access to the State funded scheme; or
    ii. In the alternative choice of private provision with the State making a contribution to funding that entitlement
b. Private super schemes should be the norm, with reduced taxes making the best contribution to funding the premiums or savings efforts. It makes no sense to subsidise such schemes through tax breaks – the current tax treatment suffices.
c. Surplus savings over and above a super scheme will always be used to top up super; that is the prerogative of the individual.

15. Breaking the cycle of welfare dependency – There are 3.8 million New Zealanders, 1.76 million of whom are in employment. Some 188,000 are living on unemployment or sickness benefits, a figure that almost doubles to 366,000 if people on the Domestic Purposes, invalids and transitional retirement benefits are included. That's 15% of New Zealanders aged 15 to 64.

    Many countries around the world, faced with the vicious cycle of welfare dependency which can become a pattern that afflicts generation after generation, have sought to break the cycle by embracing policies of mutual obligation. Typically these policies put a time limit on welfare eligibility and typically they involve a work for welfare obligation. These policies have been successful in shifting large numbers of welfare and more importantly, shifting attitudes away from an automatic dependency reflex. New Zealand should institute similar policies to transform dependency attitudes and practice.

16. Last but not least, an electoral system driven by proportionality should be ditched in favour of a system that ensures accountable government. First past the post is the best candidate to advance that objective.

6. NEW ECONOMY v OLD ECONOMY, NEW POLITICS v OLD POLITICS

While it has become fashionable to make a distinction between the so called new economy and old economy, the bigger issue to focus on may well be new politics versus old politics.

Take the "new" versus "old" economy distinction first. The September 30 edition of the Economist contrasts Australia's fabulous Olympic wins [I can personally vouch for how stunning the Sydney Games were] with Australia's unfabulous currency. Their analysis of the reason for the Aussie dollars fall from grace went like this:

> "The Australian dollar's fall is partly explained by the greenback's remarkable strength, though it has underperformed even against the euro. But it also reflects a continuing belief among financiers and potential investors that Australia has yet to complete the transition from being an old economy, based on natural resources, to a new economy, fired by information and other technology."

My analysis is that unless every business is "fired by information and other technology" it won't stay in business.

There has been a great deal of angst in New Zealand about seeking tax breaks for research development as the sure fire way to fire on the technology front. My answer is a lower corporate tax rate across the board and let resources flow to where they are best employed.

It's the new politics versus the old politics that represents the biggest stakes. Just as B-to-B and B-to-C electronic transactions are becoming a way of business life and transforming the cost and conduct of business, so I predict [and obviously I'm not alone in this – read Dick Morris's latest book – 1.] that V-to-G [voter to government] dynamics will become a new force in politics. In commercial transactions, technology has ensured that power has moved from the producer to the consumer. So too will it be the case in politics – power will shift in some significant ways from governments to voters.

In a small demonstration of this trend, a campaign conducted primarily by email by young New Zealanders disaffected with the government's policies and aiming to reverse the brain drain trend scored an instant political "hit". The issues on the politicians radar screen on the instant.

Where this trend will end is hard to predict. What can be said with confidence is that there is no hiding place for ill considered policies. People won't accept becoming prisoner of poor policy and will demand accountability for the quality of governance and the quality of policy. Their bench mark will be world best practice and sovereign governments will need to reflect that or face the consequences.

So to sum up, these days it's very much a case of power to policy and power to the people.

Ruth Richardson
12 October 2000

[1] Dick Morris: Vote.com