

Newman Weekly

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The New Zealand Centre for Political Debate

Why Subsidise Dependency?

Incentives are a driving force of human behaviour. Because people respond to incentives in a relatively predictable manner, the study of incentives is at the heart of economic theory. Their manipulation is also at the heart of politics.

Incentives influence almost everything we do: how hard we work, where we shop, what sort of car we drive, even who we vote for! When given a choice, if one option leads towards an increase in benefits, while the other leads to an increase in costs, then we are more likely to choose the option leading to increased benefits.

It's that reasoning that drives our political choices: most people support parties that they believe will deliver an increase in benefits to them and their family. In other words, people vote with their back pocket.

An example of this occurred during the election campaign when Labour announced that it would abolish interest on student loans. While most people acknowledge that this is bad policy - since it will create a massive incentive for greater borrowing, leading to bigger loans and a more indebted nation - it certainly helped Labour to win the election. Now people all over the country who had even a remote interest in studying are starting to check out courses and student loan requirements.

Incentives in public policy come in a variety of sizes and shapes. The level of taxation - the major form of income for governments - influences the nation's attitude to work and investment: if tax on income is kept low, then the incentive to work hard to gain extra income is strong. Similarly, a low company tax rate creates a compelling incentive for investment in the business sector through the promise of increasing returns. That's why, if governments

become too greedy and hike up taxes too much, they risk undermining a nation's enthusiasm for work and business investment.

A key incentive that has been long favoured by politicians is the use of subsidies.

New Zealand's experience of these is long and painful, with some of the most infamous subsidies being those that were provided to farmers by the National government in the seventies when Britain joined the Common Market.

As a result of these subsidies it was estimated that some 40 percent of farmers' incomes came from subsidies. They broke in marginal land that was unsuitable for farming creating ecological disaster zones in many parts of the country. They produced mountains of butter that had to be given away. Some \$100 million in sheep carcasses had to be rendered down. And stockpiles of wool sat around for decades.

The problem is that when politicians agree to the demand from pressure groups to introduce subsidies, it is usually in return for votes at the next election. With their focus on the three-year electoral cycle, politicians usually ignore both the impact of the incentives on the wider community, and the longer-term consequences.

Economist Henry Hazlitt in his classic bestseller *Economics in One Lesson*, puts it this way: "the art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups".

He goes on to state that nine-tenths of the economic policies that cause dreadful harm around the world occur as a result of that basic principle

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being ignored.

That is certainly the case here in New Zealand with our welfare system. For over thirty years, successive governments have subsidised a system that creates dependency, breeds dysfunction, and damages children. Unsurprisingly, as a result of these subsidies, there has been a tenfold increase in welfare benefits over that period from around 30,000 to over 300,000, as well as a dramatic escalation in child abuse.

Whereas back in the early seventies there were 28 full time workers for every full benefit paid, there are now only four. And with growing pressure for the expansion of the present welfare system from special interest groups and advocates, the number of beneficiaries in the future is expected to grow faster than the number of workers.

By incentivising unemployment, sickness, family breakdown, and illegitimacy, both Labour and National governments have been responsible for creating human misery. People who have had their dignity and confidence taken away from them are rarely proud or happy. Children growing up without a dad to guide and protect them, and without a working role model in the family, not only face greater risks and difficulties, but all too often lead lives of limited opportunity.

Taxpayers, meanwhile, are forced to subsidise people who could and should be

working, to be state wards. That means that taxes remain too high, and hospitals, schools and communities are increasingly overwhelmed as they try to cope with people who are being subsidised to be dysfunctional: drinking too much, getting too violent, doing drugs, abusing or neglecting their children, committing crime and generally failing to take responsibility for their behaviour and their future.

The answer is clear: as a society we must stop subsidising what we don't want more of. If people are unemployed we should not be paying them to do nothing; instead we should require them to undertake 40 hours a week of work experience. If people are incapacitated but capable of working when they get well, we should be proactively helping them into the speediest possible recovery, rather than paying them to languish

on welfare.

We should stop subsidizing family breakdown not only by providing support for single parents to get jobs, but also by introducing shared parenting so that both parents can share in the responsibility of caring for the children. Also, we should acknowledge that children do best with a mum and dad who are committed in a stable relationship, and stop subsidising unmarried women to have children on their own.

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