

Newman Weekly

By Dr. Muriel Newman
28 January 2006



The New Zealand Centre for Political Debate

A letter to the Prime Minister

The economy is in trouble. So much so that the Prime Minister has signalled it will become her government's major priority.

This position comes in response to reports that jobs losses have now reached 800, that Kiwi interest rates are the highest in the world, and that business confidence has plunged to a 30-year low.

But the Prime minister's response is scary, because many of the problems New Zealand faces are not caused by too little government, but by too much!

Small business is the engine room of growth of any economy. Wealth is created by voluntary exchange entrepreneurs creating goods and services that consumers want more than the cash in their pocket. Everyone benefits from the exchange: businesses flourish, there is more investment, jobs are created, and we as a society become more prosperous.

The driving force behind small business success is, of course, the free market. As Adam Smith said: "It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own interest." In a free market, where enterprise is rewarded, small businesses owners are prepared to work virtually all hours of the day and night satisfying customers and building markets, in order to make a decent living and achieve their personal ambitions.

What Adam Smith was in effect saying, was that the very best thing that governments can do to encourage small business success is to remove barriers to productivity and get out of their hair.

History shows us that countries with a track record of strong economic growth, in general have open economies with governments that not only favour a light handed approach to regulation, but are also committed to protecting private property rights and upholding contract law. With all of that in mind, I have drafted a five-step plan for growth. I will be sending this to the Prime Minister and her government as they prepare their response to the country's serious economic predicament.

1. With the operating surplus now standing at \$5.6 billion -

\$1billion ahead of Treasury forecasts - the company tax rate should be immediately reduced from 33 to 30 cents. This should be the first step in a gradual flattening of New Zealand's tax rates. Cutting company tax would not only immediately boost business confidence, but it would also give Kiwi exporters an important international competitive advantage.

In conjunction with cutting company tax, all corporate subsidies introduced over the last six years, should be phased out. As Professor Richard Epstein (a former NZCPD guest contributor) has stated: "Subsidies distort competition between firms, and nations are often poorer as a result". Our own history confirms that, and while the removal of subsidies undoubtedly causes pain, the economy as a whole will benefit.

2. At a time when the shortage of skilled and unskilled labour has become our major impediment to growth, it does not make sense that there are literally well over a hundred thousand able-bodied men and women who are quite capable of working, receiving welfare. To boost productivity and growth, a programme of welfare reform needs to

be urgently implemented - an issue addressed by the Leader of the Opposition, Dr Don Brash, in his NZCPD Guest Commentator's opinion piece this week ([click here to view](#)).

Hand in hand with welfare reform, is the need for labour market reform: when unions become too powerful, they end up by hurting the very people they purport to want to help.

As an MP, I drafted a Private Members Bill to bring back a probation period for new workers, in order to encourage employers to offer jobs to young workers, the long-term unemployed, former prisoners, and others without a track record of employment success.

In fact, when times are tough, it is imperative that small businesses have maximum workforce flexibility. Before entering politics, I worked as the Assistant General Manager of Michel Hill Jeweller, and I recall in the aftermath of the 1987 sharemarket crash having to ask all of our staff to tighten their belts, so we could avoid layoffs and store closures. They did so voluntarily because it was in

their best interests to do so.

3. The government needs to dramatically cut back on the regulations afflicting small business, to reduce the excessive cost of compliance that has now become a major impediment to growth. While many regulations, have been introduced with the very best of intentions (to improve workplace safety, provide better information, crackdown on dodgy operators and the like) the reality is that an unnecessary mountain of bureaucracy has been created that wastes precious time and money, and cripples small business operation.

I will also be asking the Prime Minister to play her part, by cutting back on the size of the public service. Over the last six years, Labour has hired an estimated 20,000 to 30,000 new public servants, many of whom justify their existence by dreaming up regulations that consume wealth, instead of being hired in the private sector to create wealth!

4. The government should prioritise the upgrading of essential roading and energy infrastructure. All revenue collected from motorists should be re-invested into roading to remove the transportation bottlenecks that are destroying national productivity. With the government already owning 40 percent of all New Zealand's land area with it's abundance of natural energy resources, they should be charged with the responsibility of ensuring a stable supply of affordable power, particularly through the creation of more hydro generation.

Further, to facilitate infrastructure development, the Resource Management Act needs an "extreme

makeover" (including liposuction as per point 3 above!) to transform it from the bureaucratic time and money-wasting merry-go-round it has now become, to a sensible facilitator of progress.

5. With New Zealand's future growth and prosperity depending to a large extent on exporting added value products to the billions of consumers in the world's global market, the Government should prioritise the securing of free trade deals with other developed and developing countries in order to facilitate our move from a consumer orientated economy to one that is export driven.

"Over the last six years, Labour has hired an estimated 20,000 to 30,000 new public servants, many of whom justify their existence by dreaming up regulations that consume wealth, instead of being hired in the private sector to create wealth!"

Postscript

In my letter to the Prime Minister I will be adding the following P.S. "Everyone knows there is a threat of a bird flu pandemic, but talk of mass graves, body bags, funeral bans and the like, is creating a pall of gloom and pessimism about the future. So, Prime Minister, could you please ask officials in government - and

local government - to stop wasting public money and depressing people with self-indulgent talkfests about a bird flu pandemic that might or might not ever happen!"

Dr Muriel Newman is a director and founder of the NZCPD.

This week's poll asks whether you agree that the top priority for the government this year should be the economy?

Supporting the NZ Centre for Political Debate

If you enjoy reading Newman Weekly and value independent political discussion then I'm inviting you to consider becoming a member of the New Zealand Centre for Political Debate.

The NZCPD is an influential political force and provides a much needed independent voice on political issues. But life is all about reality and the NZCPD relies on the support and goodwill of others to continue. Contributions both big and small are most welcome.

The support levels range from a subscriber who receives Newman Weekly and has an opportunity to participate in our discussion forums, to those who would like to be foundation supporters or benefactors.

Thanks so much for your interest in Newman Weekly and taking the time to read this message. To find out more about how you can support us visit www.nzcpd.com.