

# NZCPR Weekly

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The New Zealand Centre for Political Research

## Political Answers to Real Problems

Almost every day there are calls from one group or another for the government to “do something” about some critical problem they have identified. Whether it is immunisation rates that are said to be too low, air quality standards that campaigners claim are killing people, or too much computer spam, lobbyists are convinced that new laws are the panacea to society’s ills. The problem is that not only do new laws almost never solve the problem, but they often do far more harm than good. It seems that the “cure” is often far worse than the sickness.

The new anti-spam legislation is a case in point. In spite of the government being warned that such a new law would not solve the spam problem, they went ahead anyway. In doing so, they have created more red tape and imposed substantial new compliance costs on small business.

The reality is that 99.99 percent of the email spam that hits New Zealand is generated overseas and the new law has no effect on that. The four spammers who apparently do operate in New Zealand are already known to the Department of Internal Affairs, which no doubt had access to other powers it could have used to close them down - if that's what it had wanted to do.

Despite all of this, seemingly driven by the desire to “be seen to be doing something about an annoying problem”, the government has now passed the Unsolicited Electronic Messages Act covering all electronic messaging including texts and email but excluding phones and faxes. The penalties for businesses that get it wrong are significant – premises can be searched, equipment seized, and fines imposed of up to half a million dollars.

One of the more strident calls for urgent government action over recent weeks has been regarding the spate of finance company collapses. I invited Dr Glenn Boyle, Director of the New Zealand Institute for the Study of Competition and Regulation and Professor of Finance at Victoria University to address this issue as our NZCPR Guest Commentator. In his article “Regulating Finance Companies: Act in Haste, Repent at Leisure”, he

states:

“What then is driving this clamour for the government to “do something” about finance companies? When confronted with requests for additional regulation, the sensible economist asks a simple question: what’s in it for the group doing the requesting? Viewed in this light, things become clearer. Banks and other financial advisors like credit ratings because they can use these as a substitute for detailed analysis, thereby reducing costs. But this reveals another potential drawback of mandatory credit ratings for finance companies – a decline in the quantity and quality of local analysis. And it is unsurprising that an incumbent stock exchange would wish to impose additional costs on competitor savings vehicles such as finance companies.” To read the article see [www.nzcpr.com](http://www.nzcpr.com).

Put another way, Glenn describes the simple truth that intervention by government rarely solves a problem. Instead, government regulation prevents the formation of market solutions and in doing so, restricts freedom, reduces choice, and causes considerable compliance costs. To use the famous words of Ronald Reagan, “Government is not a solution to our problem. Government is the problem”.

Unfortunately, it is the incentives within the political system itself that create the difficulties. With an eye always cast towards the next election, politicians regard politics as their priority. That means that solving the country’s problems becomes a secondary consideration.

With Labour now trailing in the polls and desperate to make up ground before the long Parliamentary break over Christmas, some of their more generous announcements are attracting accusations of ‘pork barrel’ politics.

For 20,000 hospital nurses and midwives, the \$330 million 12 percent pay rise over three years comes on top of the \$380 million pay “jolt” in 2004 which saw public hospital nurses’ wages rise by 20 percent. The flow on effect of this latest pay increase is expected to be

considerable, not only to other nurses in other sectors but also to other hospital staff. In particular this puts enormous pressure on employers of nurses in the private sector including the already stretched aged-care sector.

The settlement reached with the teachers' union will cost the country \$750 million. Wages will be increased by 12 percent over three years and there will be a \$750 bonus payment. This is a substantial increase on the \$476 million wage deal in 2004, which saw teachers' wages increase by 9 percent over three years with a \$500 bonus.

Labour will be hoping that these increases will deliver loyal political support from unions and workers alike. But they are also eyeing up the beneficiary vote if the newly announced easing of the rules relating to the Sickness and Invalid Benefits, is anything to go by.

Since Labour became the government in 1999, the numbers on the Sickness and Invalid Benefits have increased by 50 percent from 84,000 to 125,000. This has led to claims by doctors and others that work-shy beneficiaries are being accommodated on the Sickness and Invalid Benefits to make unemployment statistics look better than they really are.

As a result of the new rules, those wanting to receive sickness and invalid's benefits will now only need to produce one medical certificate completed by their family doctor, and there will be no need for many on an invalid's benefit to undergo an annual review (For more details see [www.nzcpr.com](http://www.nzcpr.com).)

Along with these changes is the allocation of substantial new funding for medical procedures to enable sickness and invalid beneficiaries to jump

hospital waiting list queues and get priority treatment. The problem is, however, that without strict gate-keeping in place, sickness and invalid benefits could be seen as the new avenue for getting to the top of hospital waiting lists.

Overseas experience has shown that what is needed to prevent widespread fraud and abuse in the benefit system is more stringent criteria not less - as Labour is proposing. To uphold the integrity of the welfare system it is imperative that only those who are genuinely sick and disabled people are receiving non-work tested benefits. People who are not genuinely sick or disabled should be on the dole and required to work.

Labour's relaxation of the sickness and invalid benefits is in sharp contrast to some of the more successful strategies that require entry criteria to be set so high, that only those who are genuinely incapacitated are accepted onto the programmes. Further, rather than drop annual reviews, successful overseas initiatives require all beneficiaries on all programmes to undergo a rigorous assessment not only to ensure that they are still eligible, but that they are also receiving the appropriate support.

The fact that Labour is turning its back on proper welfare reform in favour of programmes that sound good but will make the problem worse over time, shows that it is more comfortable in dealing with the politics of perception, finding political answers to the difficult problems we face, rather than real enduring solutions.

If the public opinion polls are to be believed, the public is growing tired of this approach.

**This week's poll asks:** Do you think that in general, government regulation makes things better, makes them worse, or makes almost no change at all?

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