

## Supporting Fearless Technocrats

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We need to understand and find some counter forces to the biggest weakness of democratic governments – us as voters.

My gut reaction tends to put the blame on our politicians for a lack of true leadership and favouring policies which look good in the short-term over those that are in our long-term interest. That ignores human nature and to use a sporting analogy, politicians play their game according to the balance of incentives and penalties in their rules. This is reflected in their housing and travel allowance debacles and a perk busting politician justifying taking the perks their rules allow.

As voters do we expect too much of human nature? – To misquote Alexis de Tocqueville “A democratic government is the only one in which those who vote for a tax [think they] can escape the obligation to pay it.”

He could well have applied the same lack of logic to our easy acceptance of the current Government line that we need to continue to borrow as much as the Government is proposing. This is not just because without it the recovery might falter but because we can put off [think we can escape] the obligations to repay the loans and the growing interest burden.

Let's be clear. If we want a sustainable economy we need a business-spending recovery and no longer a government spending one. I will come back to that theme.

We need to be alert to another weakness inherent in our form of democracy - MMP. I am not debating the merits and deficiencies of different forms of democracy, just understanding how we might make MMP work better. MMP focuses on the centre of the political spectrum as these people most easily shift their party votes. This means neither party wants to suggest that because the national pie has shrunk, the share of the pie of middle New Zealanders should also be a little smaller.

So how can we help overcome this lack of fiscal discipline and political will of our centre right and left political leaders and convince middle New Zealand that a little lowering of our expectations immediately is better than ignoring the problem until it chokes us?

Opportunities for opinion pieces provided by media like this one play a part. However, even more important is maintaining a public expectation that encourages our technocrats, whether formally employed in the public service like Secretary of The Treasury, John Whitehead or Governor of a relatively independent Reserve Bank of New Zealand, Allan Bollard, to be as transparent and fearless in presenting policy options publicly.

Allan Bollard recently warned us that "the current composition of growth continues to raise questions about its sustainability." While he is comfortable at the moment with

the current settings for fiscal and monetary policy, he went on to say that “further ahead, removing some of the current fiscal stimulus is likely to reduce the work that monetary policy will otherwise need to do.”

Stimulating GDP growth by a debt funded government fiscal stimulus was necessary. However, it is the worse source for stimulating growth and only justifiable when the economy needs triage. It doesn't any longer. We will only be able to help Government overcome the political weaknesses of MMP and make the right call in the 2010 budget by fostering the understanding that if we all make some small sacrifices now, the long term pain can be significantly reduced.

Whenever the current level of Government stimulus is reduced, it will reduce overall domestic economic activity. Better to start living more within our means now. The silver lining for that economic cloud for us as consumers is that some pressure will come off interest rates and the dollar could well ease, and further resources can move from unsustainable domestic consumption to export opportunities.

As John Whitehead pointed out in a recent speech “Driving productivity and growth is critically important” but “we can't just grow our way out of the fiscal problem.” He advocated keeping net public debt at 20 percent of GDP as the desired level and warned that taxes as a potential solution can have a negative impact on growth. The key for taxes, as is it is for all forms of welfare support, is the way in which they motivate or discourage people to work.

The media headlines from this speech focussed on the horror scenario from Treasury's long term projections based on current policies and trends, even though we all know this will never happen. It over shadowed the 6 principles he suggested for helping us and our elected politicians make choices. We need a wide ranging conversation and debate on these principles to get them widely accepted and their potential implications considered and shaping political decisions. They are:

- Make early change
- Keep debt under control
- Focus on outcomes
- Focus on growth
- Encourage workforce participation
- Keep spending under control and focus on public sector productivity