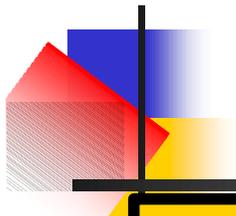
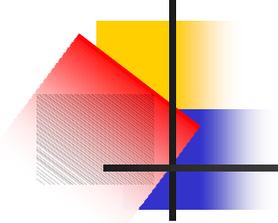


# **THE DISCIPLINED STATE**



**Lunch on the Frontier  
Frontier Centre for Public Policy  
Calgary, April 2005**

**Presentation by the Hon Ruth Richardson,  
New Zealand's Minister of Finance 1990 - 93**



# The division of labour

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**“Think-tanks exist to provoke and challenge.**

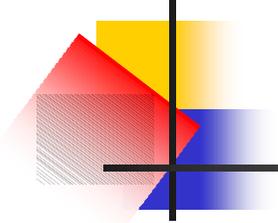
**Parties exist to set policy”**

**Nick Herbert;**

**last week, Director of Reform**

**this week, UK Conservative candidate**

**This is a lecture to provoke & challenge**



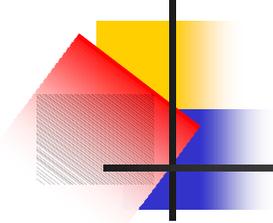
# **The big idea**

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**Those who seek to move the earth must  
first, as Archimedes explained,  
have a place to stand**

**This address promotes the cause of  
a free society**

**That is the reference point,  
the “moral clarity”  
that drives my analysis**

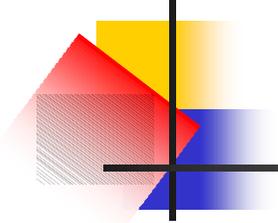


# **Basic libertarian principles**

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## **The gold standard:**

- 1. Individual autonomy**
- 2. Property rights**
- 3. Voluntary exchanges**
- 4. Rules of protection to prevent the circumvention of the first three principles by the use of force or fraud**



# **Classical liberalism**

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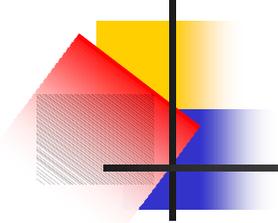
**Starting point:**

**a presumption against the imposition of public authority into ordinary human affairs**

**Operating assumption:**

**an acceptance of a legitimate role for government**

**The trick is to design the mission and to discipline the scope of government in a way that best promotes state prosperity and individual prospects**



# **Classical role for the state**

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- **Respect for property rights**
- **Sound money**
- **Effective government limited to its core functions of public goods and a welfare safety net**
- **Taxation and regulation that does not stifle entrepreneurial activity**

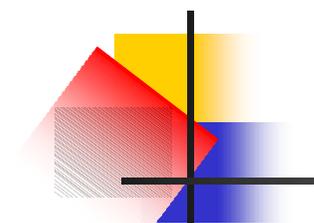
# **Freedom:** **great in principle, great in practice**



**Freedom works at every level:**

- **Economic – free trade and competitive markets best produce growth and jobs**
- **Political – democratic societies generally outperform authoritarian ones**
- **Social – civil society, not government diktat, best secures functioning communities**
- **Personal – individuals unleash dynamism, make choices and take responsibility in a way that no government can match**

# **New Zealand; the classic case study**

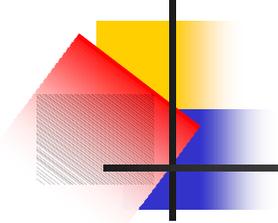


**What a difference a decade of reform makes**

- **NZ's growth rate 1984 – 1994; 1.5%**
- **NZ's growth rate 1994 – 2004; 3.7%**

**Why?**

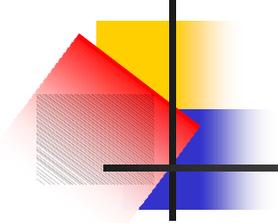
- 1. The economic reforms of the 1980's and early 1990's = a more competitive environment for the private sector**
- 2. Reforms in the government sector = more stable macroeconomic policies**



# **Alberta; a Canadian standout**

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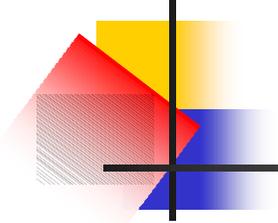
- **Alberta is a 'have' State, more as a consequence of policy design rather than resource accident**
- **The commodity of oil has counted for much less than the 'commodity' of good governance and good policy**



# **Caveat Alberta (and New Zealand)**

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**Just as it takes time for the benefits of  
better policies to show up, so it takes  
time for bad policies to take their toll**



# The twin mission

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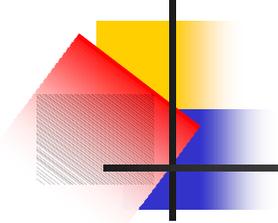
## **Advancing state prosperity:**

- **Sustaining 4% growth rates**
- **Maintaining a balance sheet capable of sustaining core state functions**

## **Advancing individual prospects:**

- **Creating the opportunities for individuals**
- **Getting the incentives right**

# **A classical liberal framework for Government**



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**Size matters**

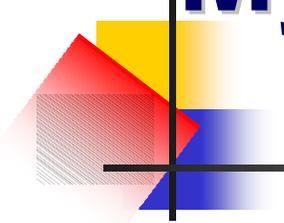
**Type of tax matters**

**Regulatory environment matters**

**Security of person and property matters**

**BUT**

**Liberty matters for its own sake**



# My favoured reform formula

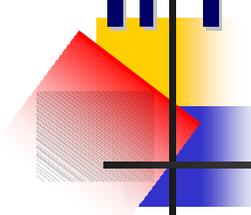
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Advancing a classical liberal agenda depends on  
three elements:

1. **Policies** to advance freedom
2. **Institutions** to protect freedom
3. Most of all, **politics** to champion freedom

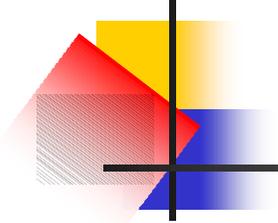
Reform calls for bold political leadership that sets  
a clear direction, embarks on comprehensive reform  
and maintains a sense of urgency and momentum

# **If I were Finance Minister for a day**



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- 1. Rein in the state – optimum 25% of GDP**
- 2. Flatten the tax – maximum 20% personal and corporate tax rates**
- 3. Economic constitution – fiscal code of conduct, voter empowerment over taxes and spending, regulatory responsibility rules**
- 4. Consumer supremacy in education, health and welfare services**

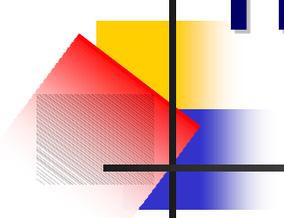


# **The disciplined state**

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**How big should the state be?**

- **The international evidence:  
high growth killed by big government**
- **The emerging benchmark:  
between 20% and 30% state share of GDP  
is consistent with good growth and  
the maintenance of public goods.**

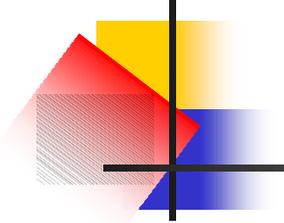


# **The virtues of a flat tax regime**

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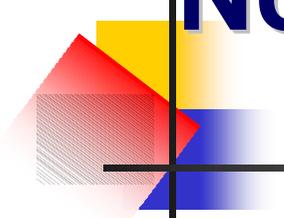
- **The vices of progressive taxes now exposed; they crush incentives, lead to the proliferation of tax complexity and privileges, and are inherently unfair**
- **Flat tax regimes advance wealth creation, with wealth redistribution best achieved by transparent and targeted transfers**

# Instituting an economic constitution



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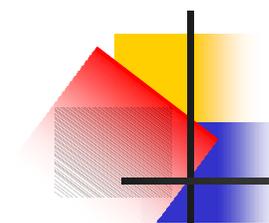
- **Code of fiscal discipline; designed to lift the quality of fiscal management**
- **Tax and expenditure limitation rules; designed to give voters a power of veto over the level of spending and taxing rising in excess of population and inflation**
- **Code of regulatory responsibility; designed to constrain state's regulatory activities in terms of process, accountability and content**



# **Now the customer really is king**

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- **Consumerism knows no boundaries; what's good for the private sector is good for the public sector**
- **Consumer power is transforming citizen's expectations of health, education and welfare services**
- **Primacy to consumer choice means competition in supply, funding of demand and the presence of prices**



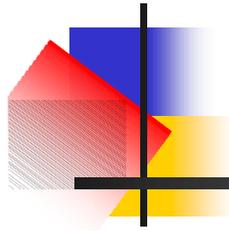
## **Lets hear it from an Aussie**

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**“It is in the nature of a first-rate democratic country that it will constantly be involved in economic reforms, or at least constant updating of its economic framework, and that the changes involved will generate political uncertainty and resistance. But that is the price of achieving and maintaining a first rate set of institutions, and that is a condition for our continuing economic prosperity”**

**Ian Macfarlane, Governor RBA**

# Ruth Richardson [NZ] Ltd



**Strategic & Economic  
Policy Advice**

**ERG**