



Hon Richard Prebble was admitted to the Supreme Court as a Barrister and Solicitor in 1971 and to the Fiji Supreme Court Bar in 1973. He practiced law in Auckland and in Fiji, and specialized in commercial litigation. In 1975, he was elected to the New Zealand Parliament as a Labour MP. In 1984, he emerged as a key minister in the Labour Government forced to confront NZ's fiscal and economic emergency. As Minister of State Owned Enterprise, the Post Office and Broadcasting, he was responsible for the privatization of various government businesses, postal deregulation and the deregulation of broadcasting. He was a member of the reformist wing of the Labour government, led by Sir Roger Douglas, which espoused continued policy modernization and eventually formed the core of the New Zealand ACT party, classical liberal in orientation, which represents the interests of consumers and taxpayers. He left politics from 1993 to 1996 and advised governments how to corporatize and privatize crown corporations. He was awarded the Commander of the British Empire title, one of NZ's highest honours in 1993. He was elected leader of the ACT party in 1996 which today drives the intellectual debate in NZ. He was interviewed after his November 20, 2003 speech to the Frontier Centre.

Frontier Centre: New Zealand's seminal reforms to government began almost twenty years ago and you occupied an important seat at the decision-making table. Although birthed of crisis, those changes contained and were inspired by timeless principles of good government. Can you summarize those basic concepts?

Richard Prebble: Let me just give you one bright principle of good policy. You can tell whether you have a good policy when all of the incentives in that policy work towards the outcome that you want. If the incentives for those who are making the change, those who are involved, don't actually work towards the outcome you want, I can guarantee you that regardless of how laudatory the aims of the policy are, they will fail. If they do line-up they'll succeed. This is the first message I give, what are the incentives behind this policy?

FC: How do you determine what activities represent the core business of government and which are better delivered in a non-government framework?

RP: There are very few things that actually need to be run by the government. Education is something I think the government should be involved in. I am keen that everyone have a good education, but that doesn't mean that the government has to own the schools, own the institutions. All it requires is that the government does the intervention that is required so that those who otherwise wouldn't have the means to access education can have it. My view is that what the government should do is acknowledge that the private sector and the private enterprise system, for all its faults, is still the best way of producing goods and services, and what we should do is try to use that to the maximum possible.

FC: You oversaw the divestiture of many state assets and crown corporations. How did the commercialization affect their performance? Are there any choices you made then that you would in hindsight done differently?

RP: Transforming from a government department to what we call a state-owned enterprise with a private sector board using the company act resulted, in all state enterprises, in the immediate improvement in their performances. But when we compare the performance of the privatized government businesses with those that are still state-owned enterprises, the privatized enterprises have gone on making productivity improvements and the reason for that, again, is because of incentives. The incentives that exist in the private sector to make assets work are considerable, whereas in the state sector, over time, the incentive isn't there.

What change would I have made? When I made those reforms, I was partly looking for the actual asset money to repay debt, which we did. We halved our debt. But, in retrospect, the real

improvement actually came from the productivity gains. To give an example, the telephone company in New Zealand, the productivity improvement of being privatized to the general economy has been estimated to be worth one-half billion dollars a year, every year. Now that's worth more than the \$4 billion that we got from selling it. The second one is that we went for the highest price, so we went for an open tender price. In retrospect, I think my professor was right, I should have gone for popular capitalism so I would have got what would have been a lower asset price but a bigger buy-in by the public. There are real benefits to the community of having a property-owning democracy, and I don't think I emphasized that enough.

FC: You were originally a member of the Labour Party. Why is today's Labour Party in New Zealand so different from the one you were in during the 1980s?

RP: A variety of reasons. One of the things that the present Labour government in New Zealand doesn't like to acknowledge is how much of the reforms that I was part of have been retained. We still have an independent Reserve Bank, we still have a deregulated financial system, a floating dollar, we don't have any subsidies for business or agriculture, we still have a Fiscal Responsibility Act, the government is running a surplus. In that sense, what we have done in New Zealand is permanently move the centre of politics more towards individual responsibility. The reason they have changed is political power. The government doesn't actually believe in Crown-run enterprises, it doesn't believe in the rhetoric of socialism at all, but it does believe in power. In New Zealand, the government at the moment looks at certain interest groups and it transfers money away from the productive sector to the interest groups in return for votes. Does it work? Unfortunately, yes.

FC: They still kept most of the core public sector reforms? For example, the impressive core public sector reforms which decentralized department activities and brought in private sector accounting and performance contracts for managers?

RP: They most certainly have. In fact, the present government is, if anything, going to take some of those things even further. The politicians like being able to put the civil service on contract, yes they do.

FC: How would they take it even further?

RP: They are looking at exceeding that and putting more of the public service jobs up for contract and making people accountable. There is a lot of support within Parliament, too, for holding the civil service accountable for its performance. New Zealand has things like double-entry accounting. Will we go back to single-entry accounting again? No, we would not.

FC: Was the ACT Party born out of the reform labour element that drove the Labour Party in the 1980s?

RP: Partly, but in fact their membership comes half from the conservative National Party as well. ACT itself came out of a think-tank called the Association of Consumers and Taxpayers, which was formed by former National and Labour finance ministers when the country moved to a voting model based on proportional representation. It was realized that a classic liberal party in the European sense of the word liberal might just be able to get elected, so the ACT Party was formed and I was asked to lead it.

FC: Our labour parties here are heavily dominated by the unions. Why did the NZ unions not stop the dramatic reforms of the 1980s?

RP: Partly because the parliamentary party realized they had a crisis and it couldn't not do the reforms that we need to make. But the other reason was that those reforms were at the time very popular. The trade union movement may have been opposed to it, but the Labour government at the time of the height of its reforms in its first four years was one of the most popular governments in the history of New Zealand.

FC: For making sweeping change?

RP: The electorate is not stupid. The electorate in New Zealand could see that the country was being run like a Polish shipyard and that we had basically gone bankrupt and that we had to move in a new direction. Some of the policies were almost instantaneously successful. To give you an idea of how bad things were, when I first took over the telephone system it took you six months to get a new phone. Within a couple of years of the reforms, we were providing a new telephone within 24 hours.

FC: Or else what would happen?

RP: The telephone companies make an offer. They say that, if you become a subscriber, they will provide you with a new telephone and, if they can't do it in the first 24 hours, the first month's subscription is free.

FC: What was the greatest accomplishment of your government in the 1980's?

RP: I think without a doubt switching away from government control to a more free enterprise sector. I know this sounds overly dramatic, but New Zealand is a country that could have become a failed state. We were right on the border of really going bankrupt. Can countries do that? Yes, look at Argentina. We were on the verge of a collapse of that magnitude and now last year New Zealand's economic growth was the highest in the OECD. Was that the result of anything the present government has done? No, it isn't. It's the result of reforms done by the Labour government and, I have to say, by the National government when they came into office and, in particular, a Finance Minister named Ruth Richardson.

FC: The ACT Party's literature clearly lays out the tax gap between New Zealand and Australia, a signal to investors and entrepreneurs that they are better off elsewhere. Indeed, since your taxes were raised there have there been increased levels of outmigration. Why is the government unable to connect those dots?

RP: Well, they can. Our higher tax rates are not motivated by any economic force but the politics of envy. Basically the government is saying to 90% of New Zealand, vote for us and we will sock it to the remaining 10%. Does that make sense? No, it doesn't. Out of our ten most successful entrepreneurs, seven have left the country. It not just the capital they have taken, they have taken their entrepreneurial flair and skill and they are providing it to countries like Britain, Australia, Switzerland and Spain instead of providing it in New Zealand. What I think is happening to the global economy is that we are going to see competitions between

tax rights. Why should that be? Well, if you have capital, why would you want to give it to the New Zealand government? You are going to invest it in a place where you are able to get your best return. It is your "after tax" return that people are looking at, and that could be the reason that, even though the New Zealand economy grew rapidly last year, the amount of overseas investment we were able to attract contracted considerably.

FC: Your party wants a flat or flatter tax rate. Can you state the case for the flat tax?

RP: I certainly can. But let me make clear what my party really believes. We actually don't like income tax. We believe it is a dumb tax, we are taxing what we want more of. Income is from work and we want more work, we want more enterprise. Why would you tax that? It would be far better to have just consumption taxes. We have produced a budget to show that we don't need income tax at all. That's my number one preference. My number two preference, if I have to have an income tax, is to have it at a low, flat rate. That's fairer. It means that everyone is paying the same amount and, secondly, it is going to encourage people to invest, create jobs and make New Zealand a wealthier country. The evidence in favour of flat tax is overwhelming. What's interesting is that, even though those ideas have come out of North America, it has actually been adopted in Russia. Since the Russians went to a flat tax, their economy has grown, their tax revenues have gone up. Slovenia has just adopted it. Ireland, of course the best-known example, has low corporate taxes and a wonderful economic success story. I would want New Zealand to be a wonderful economic success story, too.

FC: You must have been appalled by the legislation which returned significant powers to labour unions under the new Labour government. Why was it passed and what have been its effects?

RP: It was passed because the government had made certain promises to the trade union movement which underwrote their election campaign. My party actually put up a vigorous defense against the legislation and used the Internet for the first time to do so. We produced a huge number of submissions and managed to get very significant amendments to the Bill. The final law that was passed, even though I don't like it, is nothing as Draconian as what they first recommended. The trade union movement is now trying to get a new trade union law. To give you an idea of their idea of heaven – New Zealand used to have compulsory trade unionism – if you wanted to work, you had to belong to the union. The government is doing measures which are making that sort of thing happen. For example, in regard to its own employees, you get paid more in your contract if you join the union, so civil servants have been joining the union movement at a great rate.

What's wrong with that? A lot of things. In a free society, people should be able to join a union if they want to, but they shouldn't be paid taxpayers' money to do so. Another wrong thing, in fact people are better able to make their own contracts with their employers and the freer they are the better the contracts tend to be. Our biggest restriction on employers employing a new staff is the fear that they are going to be unable to part company with the person, should their economic circumstances change or should they turn out to be unsatisfactory. The ACT Party believes that we should have a freedom to employ law, and you shouldn't have any government interference in such contracts at all.

FC: So you are for voluntary unions?

RP: Not only voluntary unions but I am in favour of everything being voluntary. If you and I wanted to make a voluntary agreement to employ each other, we should be able to do that. What business is it of the government's?

FC: New Zealand's healthcare system, like Britain's and Canada's is rationing service through waiting lists. We see

higher inputs into the system without corresponding increases in outputs. How would you reform healthcare?

RP: First, I will confirm that. The World Health Organization classes New Zealand's healthcare as 41st in the world and that's despite the fact that we pour much more money in than many of the countries that have better health outcomes. The lessons are the same as anywhere else. Health is still an industry and if you allow competition you will have a market. You will get new innovative answers, you are going to get cheaper outcomes and you start to bring price pressure to bear, none of which, of course, exist inside a monopoly. Monopolies over time do exactly what the textbook says, they create monopoly profits. In this case, it is for the employees.

FC: You also emphasize choice and competition to improve the education system. Why is that?

RP: For very similar reasons. But first, let me say that the New Zealand public education system in middle-class suburbs tends to be pretty good. The problem is that in our working class suburbs our education system is appalling. How bad? Well, 40% of the children leaving New Zealand schools, according to the government's own figures, are unable to read a bus timetable after 14,000 hours of instruction. That's not something that we ought to put up with. Can the private sector do the job? Of course it can. There have been private schools for 3,000 years and, again, if you allow choice what happens is that you get alternative ideas, competition and, I think, we will see the quality improve. The people who would benefit the most will be those people who are going to those failing state schools.

FC: In New Zealand's welfare system, able bodied workers receive higher benefits than they could if they went to work. A lot of research in North America shows that when you force the people off the dole, they end up being better off even if they receive fewer rewards. Why have New Zealand governments retained these unproductive policies?

RP: That's a very good question and it is one of those things, as a former Labour politician that I am most disappointed about with this Labour government. It has been Labour governments that have tackled welfare reform, like Clinton's and Tony Blair's. In New Zealand, we haven't and we are paying a huge price. We have over 200,000 able-bodied working-age adults on welfare. Is that good for them? No, it is not and it shows up in a whole variety of social statistics. What should we do? Well, in my case, I say we shouldn't reinvent the wheel, we should actually pick up the Wisconsin model and others that have worked. We ought to be saying we are having time limits and work requirements. In New Zealand you can go on a benefit as long as you go on drinking the whisky required. If you turn up and say that you are an alcoholic, that's terrible, here's a sickness benefit. Providing you go on drinking your bottle of whiskey a day, you can have it. Well, I don't think we should be spending taxpayers' money to subsidize addictions. We should be saying to that person, if you want to get off your addiction we will help, but if you don't want to, then you will have to drink yourself to death with your own money.

FC: Your experiments with electoral reform have had both positives and negative. Was the shift from "first past the post" to a proportional voting system an over-reaction to the rapid reforms of the 80s Labour government?

RP: I think so, but it's probably too early to say. We are still looking at the results and coming to terms with how MMP works. In some ways, you can say it is a success. We have a much more representative Parliament, we have far more women, we have far more Maori, we have far more Asians, and if you want to have a representative democracy, that's true. We also have a wider range of debate, ranging from the far left which in New Zealand is the Green Party, through to the ACT Party, which favours free

enterprise. When we have debates, they are more robust. On the other hand, every government has been a minority government, it has been weak and it has had real difficulty putting together its program. I guess the real question is, is strong government a good thing? Having been in government a long time, I am not sure I think so.

FC: New Zealand's first MMP government was essentially captured by a small fringe party called New Zealand First. Its leader, Winston Peters, was able to reverse tax policy and do all sorts of things, yet most people would say that he was very unrepresentative of the average New Zealander. Does MMP not empower smaller, fringe parties?

RP: It most certainly seems like that's the case. New Zealand First is an anti-immigration party -- anti-everything actually -- so we have a "know-nothing" party exercising disproportionate power. Having said that, in the "first past the post" system, I have seen relatively small groups of MPs capture a large party. Some people would make that criticism against myself and Roger Douglas in the Labour Party and I say to you that electoral reform is not the answer to anything. No matter what electoral system you set out, in the end politicians will still get elected and in the end countries have to make these choices. The people of New Zealand or Canada have to decide what they want and their electoral system by itself isn't going to make a great deal of difference.

FC: You made a comment today about the Tony Blair government. Could you elaborate?

RP: I have made a number of comments about where politics is in the whole world. Look, socialism is in retreat. People often look at the rise of the Left and they look at Tony Blair. Tony Blair is nothing like the previous Labour government. Margaret Thatcher was asked how would she would be able to judge the success of the reforms that she made, and she said that the ultimate test would be when she was able to change the Labour Party. I don't think there is any doubt at all that she succeeded. Blair is now privatizing hospitals and schools. She has reformed the British Labour Party and, in that sense, even the New Zealand Labour Party is far reformed from what it was before.

FC: You stated that your party may be more of a think tank than a political party. Why are think tanks, particular the independent ones unconnected to government funding, so important?

RP: I think independent think tanks are one of the most important reforms which have appeared in my twenty-five years in politics. When I started, public policy was something that the civil service and the politicians did. Public policy debates have tended to be dominated by the universities which tend to be paid for by the taxpayer. Are they going to criticize the master? No, they are not. Then you get the independent think-tank. Why they are devastating is because they are looking at old issues and producing new ideas and new policy. In a democracy we are really having a contest of ideas. During the last twenty-five years the liberals go on winning their contest of ideas hands down everywhere, all around the world. One reason I am making this trip to North America is because some of the world's great think tanks are here. I like to visit them and talk to them about the latest ideas, the latest thinking, to renew my intellectual batteries and go back with these ideas. We talk about a global economy but we also have a global market for ideas as well. Ideas that come out of a North American think tank that may not be adopted here may end up being adopted in New Zealand.

I will give you a small example to do with fisheries. We all know the world's fisheries are at risk. New Zealand has the fourth largest coastal fishery in the world. Our fishery was at risk. We looked for new ideas and saw this idea that is called ITQs, which is the idea of giving fisherman a quota of fish so that own it. They

own the right to have 1,000 tons of snapper a year. That changed the whole incentive. Instead of going out there and raping and pillaging the sea and trying to grab as much as they could, they wanted to preserve the fishing stock because they had a right to 1,000 tons of snapper forever. Did they report poaching? They most certainly did. Did they stop taking undersized fish? Of course, they did. The incentives were there to preserve, and our fisheries have not only recovered but our fishing industry has boomed. That's not an idea we thought of. North Americans thought of it and it came out of a think tank. There are similar ideas of that sort, other ways of handling tough issues. Have the politicians ever come up with a good way of preserving anything? No, they haven't.

FC: Are we going to see more think tanks in New Zealand?

RP: I hope so. We already have a very good think tank called the Roundtable, but the same idea that I mentioned earlier applies. You actually need more of them, you need them of different sorts. It's the competition of ideas, producing different thoughts. New Zealand would be a better country if we had a Frontier Centre for Public Policy. You need some think tanks that "mix it," take the ideas that other think tanks have got and translate them into more popular language. It is like getting a report on the local media on the radio stations and on TV. There are certain principles about think tanks. Why think tanks work better than politicians is because political parties have less credibility. A political party wants something. It wants your vote and tends to say what you want to hear. The think tank is not looking for your vote, so think tanks can raise issues that political parties tend to run away from. If I can leave you one thought about my own party which I understand, according to think tanks, makes us unique. Because

we came out of a think tank, we still have a policy focus and as a political party, we set out to win influence, not power. That is revolutionary. Old politicians think they have to get power, they have to get one more seat than the opposition so they can be the government. We set out to get enough seats to get in the threshold, but we then said we didn't want to compromise any of our principles. We are quite happy to get 7% of the vote, which gives us 9 MP's, which gives us a word in Parliament. What we have discovered is, because we were prepared to talk about issues and produce solutions to problems that all of the other political parties wanted to run away from, we ended up with disproportionate influence. Indeed, I think we are dominating the agenda. In 1996, ACT's agenda was regarded as "way out". None of the other political parties were even prepared to look at it. We introduced a number of bills into the House that every other political party voted against. But in a recent discussion of our policies, every party said they are in favour of the principles involved. We made a turn around in only six years from total opposition to all being in favour. I think that is because of the sheer power of an idea. If there is a problem and you have a solution, in the world of the blind the sighted man is king.

FC: You like the name of the Frontier Centre for Public Policy. It has been a controversial name for some people, a little radical. Why do you like it?

RP: The idea of the "frontier" has appeal right across the world. Here are new, fresh, "get out and conquer the open prairie" ideas. The frontier is where all of us want to be. I think it is a great name. If you folks don't want it, can we borrow it?

The Frontier Centre for Public Policy is an independent public policy think tank whose mission is to explore options for the future by undertaking research and education that supports economic growth and opportunity. You can contact the Centre at: Suite 25 – Lombard Concourse, One Lombard Place • Winnipeg, Manitoba CANADA R3B 0X3 • Tel: (204) 957-1567 Fax: (204) 957-1570 • E-mail: newideas@fcpp.org • www.fcpp.org