

WITH Sir Roger Douglas, Frontier Centre Policy Advisory Board



Sir Roger Douglas is among the most influential and best known New Zealand politicians alive today. The political heritage of Douglas's family stretches back to the British Labour movement and he was a third generation New Zealand Labour MP, serving in Parliament with his own father. After entering Parliament in 1969, he became Broadcasting Minister and introduced a private members' bill concerning superannuation in his first two terms. After nine years in opposition, Douglas became the Minister of Finance for the fourth Labour government. At that time New Zealand had an inefficient public service, many government businesses that were losing money, and a complex system of price controls, subsidies and tariffs which led the government to near bankruptcy. Douglas and his government responded pragmatically, completely reforming the state sector, privatizing non-core government businesses, and removing all price controls subsidies and tariffs. These reforms were lauded as world leading and Douglas has won a number of international awards including a Knighthood. After seventeen subsequent years of rule by National and Labour government none of the 'Rogernomic' reforms have been reversed. When the Labour party lost its stomach for Roger's pragmatic but rapid style of reform, he founded a new party, the Association of Consumers and Taxpayers. ACT has won parliamentary seats in the past four elections and continues to promote reform based on consumer choice and prudent

government spending in New Zealand. In his post parliamentary career, Roger has spent fifteen years traveling around the world where he has worked as a consultant to numerous governmental and non governmental organisations; he has also acted as a company director. This interview reprinted with permission from New Zealand Website www.getfrank.co.nz

Get Frank: Your third book was called “Unfinished Business.” What is this business?

Roger Douglas: “I think probably history would say that when the government stopped making the changes there was still a lot to do in the social policy areas.... look at education, look at health, if you look at wellbeing... Worrying times in all of those, they need a radical reform. It is simply not going to happen with the current political parties. None of the political parties, whether it's Labour or National are inclined to make the changes that are required. Therefore what they'll do is throw more and more money at it but the outcome will not improve. They won't change the fundamental structure.

GF: What do you believe needs to be done in those areas?

RD: Essentially you have to create a structure where people take personal responsibility. The government's role is defined as ensuring that every New Zealander has the capacity to provide their own education, their own healthcare or look after themselves in times of unemployment, or sickness, or accident, and you can generally do that through the tax system. But a system that is based on government monopoly is never going to work.

GF: Are there any systems that are based on government monopoly that do work?

RD: I don't think anywhere in the world that I've seen. And if you look at most of the developed world most of the problems are in the area of health, education, welfare, and retirement provision.

GF: You haven't studied Hayek?

RD: I've read a couple. I just see most of what we did in the 80's and what I am talking about now is basically common sense. It's just based on a set of incentives that people react kindly to. Whether they are the consumer or whether they be the provider.

GF: So my question before, would you describe yourself as a Reaganite at the time when you came to power?

RD: No. No. I wouldn't describe myself as anything. I don't put labels on anything.

GF: So are you saying there weren't any particular thinkers that influenced your ideas about the proper role between the government and the consumer or the citizen and the market?

RD: I just believe that people can spend their money better than the government can and the government role is to ensure that there is plenty of competition so you have an open marketplace. The government has a regulatory role but that regulatory role under normal circumstances - it should be as light handed as possible.

GF: So what are your thoughts on the Telecom unbundling?

RD: First of all I think telecommunications are changing so rapidly that in 5-10 years you won't recognize it anyway. I think you cannot expect people to invest millions of dollars unless they can make a high rate of return on it. And I think the government got fairly heavy handed on it and it was not called for. On the other hand I don't think Telecom helped themselves very much.

Telecom's business tactics have been arguably extremely ruthless towards any perceived competition for a long time, using their market position to do things like selling broadband capacity to Xtra lower than to other ISPs. Strangely, Douglas' take on why Telecom is being broken up is that “their public relations and their explanation of their decisions was pretty poor”, pointedly leaving aside Telecom's actual behavior.

GF: So that is an argument for a monopoly in their case? That you believe they shouldn't have been treated the way they were?

RD: I think the market is going to change anyway, I think that telecommunications are going to play an enormous part in the growth of this country and a lot of other countries. If you believe that you have to create a marketplace where the government can tell you what to earn and whether you can earn any money at all - is it a good market plan? People won't invest.

GF: In Japan they created incentives for start-up businesses and they now have 100mb speeds.

RD: Look, I wouldn't claim to be an expert. All I'm saying to you is that at the end of the day, people will not invest in the telecommunication, or another industry, unless the expectation is that they are left free to make a return. Why would I invest a million dollars if the government came along and said I can only sell my goods at this price or that price or I have to let everyone share it.

GF: So are you saying that government shouldn't set the price but that it was wrong to separate the divisions to allow access to their (Telecom's) infrastructure?

RD: I'm saying that what they're doing is likely to mean that people won't invest a lot of money in this industry.

GF: Why Telecom in particular?

RD: Telecom won't. Who else is going to invest?

GF: Telstra said they would.

RD: We'll wait and see

GF: Presumably they have more incentive to invest.

RD: They could have always done it. Sometimes the threat of competition is as good as having competition. Like I said, I don't think Telecom handled their side of the story particularly well. If you look at America during the 90's and they had an enormous increase in growth and what have you, and a large part of that came out of the Telecommunication industry because of huge investment. 50% of the new jobs were related to telephone companies. But of course if you stymie that investment in New Zealand it's not going to go ahead. And the danger of what the government is doing is it could well stymie that investment.

GF: Would you say your view is based on a conception of a market driven consumer perspective?

RD: Well it's certainly based on a perspective that the market is likely - where there is open competition - is likely to deliver the consumer with a better product than the government monopoly ever will, or otherwise we would let the government own all the supermarkets. Imagine what this hotel (gestures around us to the opulent Copthorne) would be like if the government ran it?

It'd probably be a bit wobbly, have cheap roof tiles, and an overflowing treasury. Speaking of treasury, it'd be rude to talk to Douglas and not have a wee chat about tax. New Zealand society features a deeply rooted egalitarian culture - which makes a system of progressive taxation (where the top earners pay a higher proportion of their income in tax than the middle or bottom) something of an anomaly when you think about it. Rich people pay more of their income in absolute terms than those in the middle or bottom anyway, so in theory you could argue that everyone should be taxed at the same rate if we are to hold true to the principle of treating everyone equitably and equally. There is argument about the equitableness of both approaches of course, with naysayers arguing that a flat tax merely shifts the burden from the well off to the middle class.

GF: Famously you're an advocate for lower taxes, a flat tax even?

RD: I'm certainly an advocate for a flat tax. But I think tax comes out of your other policies. What I'd essentially advocate is that every New Zealander should have what I call a tax free income, and that the tax free income threshold should be set at a level which would enable them to buy their own health care, take out their own private sector insurance against accident, sickness and unemployment. Save for their own retirement, have income to be able to live during their retirement, to be able to live and save for their retirement adequately and look after their own health care. And only then would they pay tax. And that would be a flat rate of tax and probably in the vicinity of 25 cents to the dollar.

GF: I believe there is at least one Eastern European country, might be Latvia or Lithuania or somewhere like that, where after the process of changing from communism to democratic capitalism they implemented a flat tax of somewhere around about 20%.

RD: I think there are countries with flat rates of tax but whether they have got their social policies in the right order is another thing. You've got flat rates of tax in some of the Eastern Blocs as you say. (A flat tax has been adopted in Estonia, Iceland, Lithuania, Latvia, Russia, Serbia, Ukraine, Slovakia, Georgia, Romania, and Macedonia).

GF: Because a flat rate of tax is prima facie attractive. I guess there's a significant problem with it in the implementation of it?

RD: What? The flat rate of tax? I don't think it is all that difficult. What you're saying potentially, if you're single for example, you might have their first \$25,000 tax free. They're not paying any tax on that. But what you'd have to do is save say 3 or 4 thousand dollars of that for your retirement. You would have to buy your own health insurance, catastrophic cover, major event cover. And you'd have to buy your own insurance against sickness, accidents and unemployment.

GF: So by 'having to buy your own total insurance cover' does that mean you would have to regulate that?

RD: The government would have to regulate. Because no politician is going to leave someone with no income or let someone die in the gutter if they had an accident because they can't go to a hospital. So unless you make it essential that everyone do it then some people are just going to sponge off others.

GF: Right. And you believe this could be implemented here?

RD: Oh, I have no doubt. If you ask me is it going to be, then the answer is no. Because the current crop of politicians would rather make you dependant on them. They like to have you having to queue up at the welfare office or somewhere else. They like to dictate to you where you send your children to school.

GF: Why do they like that?

RD: Makes you feel important I suppose. I don't know you'd have to ask them.

I suspect the vast majority of people who become politicians have wider and more nuanced motivations than what Sir Roger is according them. Their failings are arguably far more the failings of an adversarial Westminster political system that undermines meritocracy than of the specific individuals that inhabit it. But that's by the bye.

GF: Presumably most people who run for office do so out of... because they want to make a positive change in society.

RD: Well, that is certainly what they claim. In their own funny little way they do. But what we are talking about here is the mean. One might claim to a high standard in health care, or a high standard in the education system. But the present politicians say this can only be delivered if 'we the government' tax you all and 'we the government' build and run the schools. But that's nonsense. I mean, we know it does not work. When you've got 40% of kids coming out of school unable to read properly or spell properly or to do simple maths, we know the system isn't working. I proposed that 'but we haven't tried it' 'but we don't know'. Sure as heck we know what they want to do and what they are going to continue to do isn't going to work. The proof is in the pudding.

GF: Incentives for the teachers to teach well?

RD: You get competition. I mean what makes you start this business? You see an opportunity. It's not true for education. In education the teachers have to do what the bureaucrats in Wellington tell them.

GF: So how would you describe your legacy in New Zealand? How would history describe you?

RD: Well I think history would say that change was required. In terms of the economic area at least that the changes we bought about were beneficial.

GF: The changes that you put through I don't think anyone in hindsight can argue that they weren't completely necessary and New Zealand has benefited from them. In terms of economic prosperity there is a

saying that the greatest economic prosperity only happens with political stability. One of the assets of the American political system is it is so hard to get anything done that it enables a far greater deal of stability. Change is achieved only by majority consensus.

RD: I think getting things done in New Zealand is more difficult now than in the 80's when I was making the changes. We got MMP and MMP has made it more difficult. I suppose it is more difficult to do good things but it is probably more difficult to do bad things as well. The other consequence is the quality of MP's we have got at the moment is probably as bad as they have ever been.

GF: Am I reading you right if I say that parliament would be better of with a system where it is easier to make a change rather than all the consensus building?

RD: I think that at some point, it would be a good idea if the public were allowed to vote again on whether MMP would remain. They were promised that. But I think the issues that face the country are much deeper than MMP or the parliamentary system. I think we would be kidding ourselves that if we went back to First Past the Post and thought that everything would magically get better.

GF: So those issues are presumably economic?

RD: No I think the big issues are much more social than that: Education, Health, Welfare, Retirement.

GF: Retirement seems to be the biggest one. Retirement seems to be the granddaddy of the bunch looking at the demographic.

RD: I think it is a big issue but one of the easier to deal with. I think at the end of the day the big issues are Welfare, where we have third or fourth generation unemployment or solo parents, unmarried mothers. And the rise in crime that has been associated with the break down of the family. And I'm taking about the really dysfunctional ones. Probably only 5-6 %