

## **Anyone for Another Vote?**

New Zealanders don't get to vote very often about parliamentary matters. On 26 November we get to vote in the general election and on the future of MMP. We can be thankful that we live in a country with such firmly rooted democratic freedoms.

Yet some countries, such as Switzerland and the United States, provide greater opportunities for voters to participate directly in democracy than occurs in New Zealand. Might New Zealanders be better off with more of a direct say in key parliamentary decisions?

Of course, the opportunities for greater use of direct democracy should be limited. Nationwide referenda are costly, time consuming and particularly ill-suited to decision-making on matters that cannot be reduced to an unambiguous brief question suitable for a yes/no response. It is efficient for voters to delegate a great many decisions of a non-constitutional nature to their elected representatives.

A government bill held over from this parliament would give New Zealanders the opportunity to vote down any government proposal to increase core central government operating spending per person faster than the projected rate of consumer price inflation. Individuals have to limit their own spending on a per capita basis, governments need to do the same.

Such a spending cap would allow governments to increase the volume of services they provide through productivity gains, but voters would determine directly whether additional spending increases should occur.

Increases in real government spending per capita typically raise the per capita tax burden on New Zealanders, sooner or later. Unduly high tax burdens reduce the freedom of New Zealanders to spend their own money as they see fit and add to the unintended and undesired effects of any tax system.

High tax burdens reduce the proportion of New Zealanders who pay their taxes willingly. This forces governments to engage in more intrusive and

aggressive tax-gathering activities. Tax laws are now so complex that even the commissioner of Inland Revenue would probably not claim to know how the law should be applied in every situation.

The issue is topical because New Zealand is facing serious fiscal and competitiveness problems today following the blow out in government spending within the last decade. Based on the just-released Crown Financial Statements, core Crown operational spending per person for the year ended June 2011 was \$16,045 dollars, 31 percent higher than in the year ended June 2002 when it was \$12,255 per person in today's dollars.

Taxpayers might be further discomfited to learn that tax revenues per person for the year ended June 2011 were only \$11,742 and the government was running a deficit on operations before extraordinary gains and losses of \$4,190 per person. Tax revenues would have needed to be more than one-third higher to eliminate that \$4,190 deficit.

Readers who multiply these figures by the number of people in their household might thereby get a better feel for the magnitude of the problem.

Some will argue that there are benefits from the increased spending, and indeed there are. Governments have already factored them in. That is why they approved the spending in the first place; consider interest-free student loans for example. The real problem is that governments have yet to factor in the costs in the form of tax increases.

Moreover, only a small proportion of tax revenues fund the goods and services that New Zealanders could not in general better secure for themselves. Based on the latest Statistics New Zealand estimates, central government current spending of a collective nature was only around \$2,600 per person in the year ended March 2010. This was less than a fifth of current government spending per person. Nor does the need for a welfare safety net account for much of the difference.

There is strong empirical support internationally for the view that excessive spending by governments on transfer payments and current consumption is associated with lower national income per capita.

The government's spending cap bill would give the electorate an opportunity to check irresponsible increases in government spending. A further improvement, given conflicts of interest between beneficiary voters and taxpaying voters, would be to require approval by a supra-majority of voters as is common in the United States.

These stark fiscal facts will painfully confront whoever forms the next government. The proposed bill can't spare the electorate that pain, but it can hope to spare some future electorate from a repeat dose. Recent governments have been fond of telling industry that self-regulation hasn't worked. The government bill implicitly acknowledges that self-discipline in spending by politicians hasn't worked. The electorate could usefully take a greater role.

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