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PROMOTING POLICIES FOR A BETTER NEW ZEALAND

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Public Policy

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Introduction

- What is public policy?
- “The framework of institutions, laws and programmes laid down by the arms of government (parliament, the executive and the judiciary) that regulate the economy and wider social interactions.”
- Public policy matters



Objective of public policy

- Human flourishing
- Not just monetary values
- Encompasses efficiency, fairness, environmental values, liberty



Some immediate issues

- People have different preferences
- Problems of information
- Rational choices?
- People know own interests best
- Agency problems, opportunism



“If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is, no doubt, the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions.”

James Madison, 1788

... more issues

- Markets vs government
- Markets require rules
- Regulation vs common law
- All arrangements imperfect



An alternative perspective



Voluntary cooperation



Market exchanges



Politics/collective choice



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A photograph of a family of four—two men, a woman, and a young girl—smiling and sitting at a picnic table outdoors. The table is covered with a red and white checkered tablecloth and has a plate of food and a glass of wine. The background shows green foliage.

Voluntary cooperation

- Dominant means of getting what we want
- Norm in families, small groups
- Also clubs, associations, charities
- Involves redistribution and altruism
- Works best in 'face to face' settings



Markets

- Essential for society at large
- Gains from specialisation and trade
- Prices transmit information, markets continuously adjust
- Private market failures

A photograph of a parliament or assembly with a semi-transparent text box overlaid. The text box contains the title 'Politics' and a list of five bullet points. The background shows several people seated at desks in a formal setting, with some papers and microphones visible on the desks.

Politics

- Mechanism is voting
- Imprecise – candidates, parties, electoral systems, accountability
- Coercion (not mutual benefits)
- Tyrannies of majorities and minorities
- Political market failures

Failures in private markets

- Public goods
 - Not worth producing privately
- Externalities
 - Ubiquitous; many private solutions
- Monopoly
- Will intervention improve things?



Failures in political markets

- Self-interest also present
- Decisions based on political benefits not public benefits
- Short-termism, information problems and biases
- Costs of mobilising in the public interest (public choice problem)
- Policy errors



Other government failures

- Monopoly (statutory or *de facto*)
- Rent-seeking
- Tendencies to over-spend and over-regulate
- Failures in core roles (personal security, infrastructure)
- Welfare dependency
- Bureaucracy and judiciary
- Deadweight costs of taxation



Upshot: Must compare real-world alternatives

- No ideal yardstick
- Political/government failures rule not exception
- Focus on incentives
- Bias in favour of economic freedom
- Implies limited government





How do we constrain government?





Constraining government in the public interest

- Separation of powers
- Sound processes, eg RISs, GTPP
- Economic constitutions eg Reserve Bank Act, SOE Act, Fiscal Responsibility Act
- Taxpayer/Ratepayer Bill of Rights
- Regulatory Responsibility Act



Conclusions

The Economist:

“The biggest economic-policy mistake of the past 50 years, in rich and poor countries alike, has been and still is to expect too much of government. Statism has always found all the support it needs among mainstream economists. They are usually much slower to ask whether the supposed remedy of government intervention might not, in practice, be worse.”



Conclusions (cont)

- Public policy question on any issue: the right role of government?
- Comparative institutional approach needed
- Government must be constrained (limited)
- Smokey the Bear's rules for fires relevant to government: "Keep it small, keep it in a confined place, and keep an eye on it."





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