

# *Media Release*

**Not Embargoed – For Immediate Release**

## *DECISION TIME*

The election period is well and truly upon us. There are politicians on every corner telling us how wonderful their policies are while the costs of these policies are rarely mentioned (other than by opponents saying they are unaffordable). Who can we believe? From an economic perspective there is “no free lunch” – every policy initiative carries a price. Larger social spending might make us feel good but requires a larger tax burden that puts more distortions in the economy. On the other hand, tax cuts reduce the government’s ability to provide services society expects, nay demands, it to deliver.

Economists are trained to evaluate trade-offs so we thought we would put this training to use by providing a review of each of the parties’ key policies, outlining the pros and cons of each. It is our hope this review will make the consequences of the choices on offer more transparent. At the very least it should provide voters with an assessment from dispassionate economists rather from those who want power.

There is a lot of huff and puff in each party’s election manifesto but little that will blow New Zealand’s house down. All parties proclaim to be committed to a strong economy. Whilst there is some misguided thinking in some policy areas, there is little to cause major concern. However, the converse is that there is little political appetite to tackle some of the major challenges NZ faces. National’s policy platform looks to offer more economic upside in terms of living standards, while Labour offers more social support.

As a country do we want policies that grow the size of the pie bigger or distribute the pie more equally? There is no right or wrong answer. Each has its own costs and benefits. Picking among the various alternatives comes down to a value judgement for each individual voter.

**Contact:** Dr John McDermott  
Chief Economist

Phone: (04) 802 2218  
(0274) 305 727

## IN A NUTSHELL

**There is a lot of huff and puff in each party's election manifesto but little that will blow New Zealand's house down. All parties proclaim to be committed to a strong economy. Whilst there is some misguided thinking in some policy areas, there is little to cause major concern. However, the converse is that there is little political appetite to tackle some of the major challenges NZ faces. National's policy platform looks to offer more economic upside in terms of living standards, while Labour offers more social support.**

The political arena can be a graveyard for economists if they enter the policy debate, particularly heading into elections. Consequently, we are loath to make comments on individual policy initiatives. But as economists we also have an obligation to the wider public to make informed comments about the relative merits or cons of policy initiatives. After all, we are theoretically the best placed to do so and public sector economists' hands are implicitly tied. With this in mind, we have provided a quick snapshot of the major political parties' election manifestos.<sup>1</sup> The intention is to provide some informed comment, highlight some of the choices voters are implicitly making, and outline some of the key issues policy makers are facing, rather than display any political bias.

There is no free-lunch when it comes to implementing policy. Lower taxes enhance competitiveness and economic incentives to get ahead, which drives medium-term prosperity and the standard of living in the future for our children. Conversely, if a high weight is placed on providing social support, then this invariably involves taking more out of peoples pay packets through the tax take. Government intervention is appropriate in some instances, but can distort economic incentives. It is a fine line to tread. Economic and redistributive aims can frequently push the policy-maker in opposing directions.

We outline the key themes that are apparent heading in to the election, what we like, and what we think is missing from the election and policy debate. The annex provides a one-page snapshot of each party's major policy platforms.

### What we like

- **Doing no wrong.** The first law of economics when it comes to policy setting is "do no wrong". On that front most parties score reasonably well. All parties recognise the importance of a sound economy. The key nucleus of policies that underpin New Zealand's medium-term growth potential resides in an independent central bank, flexibility within the labour market, and the Public Finance Act (which now incorporates the Fiscal Responsibility Act). These are so well enshrined in New Zealand's legislative framework that it is difficult to envisage a substantial change. Labour has had two goes at shifting the wage-negotiation platform, which whilst hard to demonstrate material adverse consequences from (given the low level of unemployment), has nonetheless resulted in people working less on average, and marginally reducing the supply of labour. National would reverse some of these changes shifting back towards a more flexible arrangement.
- **The incumbent Minister of Finance has runs on the board.** Dr Cullen's stewardship as Minister of Finance has been perceived as prudent and such responsibility gives offshore investors confidence in the existing Government despite its left-leaning tendencies. Outright election bribery has been limited to a couple of policies – student loans and the sudden appearance of \$1.5 billion for tax relief – which we take as a vote of confidence in the fiscal framework.
- **National's economic and tax package.** The package is economically sound, delivering appropriate economic incentives and rewards to work and getting ahead. The package is affordable. Does anyone earning \$60,000 really feel like a high income earner and deserving the highest income tax rate? Are tax cuts to those earning higher incomes unfair? Such an outcome is simply how a tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they may just decide to pay their tax in another country. Why work more or harder if the incremental dollar earned largely accrues to someone else? This is relevant to every tax bracket. There is some business friendly rhetoric through promises to re-work the Resource Management Act, overhaul employment law and scrap the carbon tax, which will assist competitiveness.
- **The timing of the post-election spend-up / tax boost.** Whilst sizeable, the proposed packages are being phased in over a number of years, which will mitigate the potential concerns that such a fiscal loosening will have on monetary policy settings.

<sup>1</sup> We have limited this analysis to the two main parties and two highest polling potential coalition partners.

- **The Green's policy platform** has sound economic underpinnings in regard to environmental policy. The benefits of internalising externalities such as pollution and CO2 are potentially enormous. Kyoto is based on a robust system of tradable rights and maybe it is worth being a member of the protocol in hope that non-participants are 'shamed' into joining? Unfortunately, the playing field is not level when it comes to meeting Kyoto commitments, and until the playing field is levelled internationally the economic costs will outweigh the benefits.
- **Intervention strategy has shifted from the bottom to the top of the cliff, with Labour leading the way.** For too long the Government (Treasury) bean-counters have been too frugal. Fiscal discipline was and is necessary, particularly over the early 1990's when the fiscal position was still perilous. But fiscal concerns are no longer such a macro priority (while we need surpluses, we do not need them to be nearly 6 percent of GDP!). Intervention strategy is now shifting towards early targeted intervention rather than an "ambulance at the bottom of the cliff." Longer-term payoffs now dominate near-term fiscal concerns. There is a greater focus on early childhood education (early intervention for vulnerable children), health intervention programmes such as meningococcal vaccinations, smoking cessation initiatives, screening for diabetes, cardiovascular testing by PHOs in high risk areas, and breast screening. Moreover, in areas such as social welfare, intervention strategy is shifting from a passive towards an active stance with the aim of reducing benefit dependency (e.g. Jobs JOLT – matching job seekers to vacancies, work training and community service for the long term unemployed). Of course such intervention is frequently a balancing act where the policy-maker treads a fine line between providing assistance and creating perverse (potentially distortionary) incentives. Any strategy needs to be assessed within a prudent framework. Just because social objectives are desirable does not mean that intervention is always the optimal strategy to pursue. Unintended consequences can lurk when intervention is chosen.
- **There is recognition of the role that Government can play in alleviating situations where there may be a market failure.** The Government has a role in providing some services because they can provide the services at a lower cost or society receives a benefit from the investment (e.g. tertiary education). In the absence of government assistance, individuals and businesses would under-invest. For example, without direct incentives firms would under-invest in R&D because the benefits do not entirely accrue to the individual or firm, particularly where firms struggle to exclude other businesses from subsequently using R&D outcomes (although we would like to see better assistance forthcoming!). In cases where the benefits diffuse through the economy as a whole, then there is a case for government incentives. The market will not prevail if left to its own devices in some instances, particularly where scale, size or market imperfections distort market behaviour (e.g. energy). Some market failure related intervention is good (R&D, education, skills training), while others (export guarantee schemes, picking winners) lack a sound economic rationale and will potentially do more harm than good.
- **Education receives a high priority from all parties.** New Zealand's education standards are high amongst the OECD with education spending the same. Higher educational standards are key to delivering further enhancements in human capital and productivity. Themes we welcome across all parties include a strong commitment to early childhood and primary education, and public-private sector liaison in identifying skill shortages. However, as the OECD note in their July 2005 survey of New Zealand, education services require a sharper focus on results. The furore over courses such as twilight golf, radio-singalong, homeopathy for pets, Cool-IT and free gifts for enrolling in further education highlights that some spending has been poorly targeted and there is scope for reprioritisation or outright spending cuts. Fewer low quality courses or subjects that have only remote career relevance, and allowing private for-profit providers to participate in the delivery of free early childhood education would be areas to look towards for further improvements.

### What looks Okay

- **The size of the proposed fiscal injections** (whether they be through tax cuts or spending increases). Fiscal stimulus will certainly have the Reserve Bank on alert but the impetus should be insufficient to pull the interest rate trigger as the packages hit the economy in what we believe will be the trough in the cycle (mid 2006). National's package looks marginally larger in size on the face of it and hence of greater concern to the Reserve Bank. But it is far from clear cut. Labour's costings look light (student loan uptake) and they signalled an intention to spend the additional tax revenue received in the Pre-Election Economic and Fiscal Update, implying the absolute magnitude of the fiscal packages are broadly the same. Moreover, a portion of National's tax package will be saved and this will add to productive capacity. Any spending dominated package will provide greater demand and inflationary impetus, particularly with public sector employment demand exacerbating tightness in the labour market.
- **Transport policy initiatives.** Additional money is promised by virtually all parties with the aim of alleviating traffic congestion. Yet if anyone is going to be serious about alleviating congestion and increasing productivity, tolling or congestion pricing will have to form part of the solution. Simply throwing more money at roading or taxing petrol as a "bad" will not deliver material improvements. Private sector involvement should be welcomed.

## What is missing

- **A lot.** As is typical with elections, there is a general lack of willingness to tackle the hard issues that are required to really make a difference in delivering higher living standards.
  - **Welfare dependency is high.** Social welfare accounts for close to one-third of Government spending. One in six New Zealanders rely on some form of benefit as their main source of income. It is rather disconcerting to see those registered as unemployed tracking down but invalid and sickness beneficiary numbers heading up. Active (as opposed to passive) labour market policies implemented by Labour are assisting getting the unemployed back into the workforce. National are targeting medical evaluations, community service/training for long-term unemployed and tougher criteria on DPB recipients, which are further steps in the right direction towards reducing welfare dependency.
  - **Throwing money at Vote Health has not changed outcomes or the service provided.** Health related spending has risen by close to 50 percent over the past five years yet there has been no material change in waiting lists or outputs relative to demand. More money is promised but will it change outcomes? Health needs more effective price signals. Service providers are the gatekeepers in public health – and zero price makes for open-ended demand. Waiting lists are the unpopular rationing device which will not disappear no matter how much funding is thrown at the sector. Efficiency in the sector is vital.
  - **We are a nation of spenders rather than savers.** The current account deficit is more than 7 percent of GDP, we invest too much in housing, and the household savings rate is actually a dis-savings rate, as households spend more than they earn and go deeper in debt. Kiwisaver is a first home buyers' grant in disguise. The problem is that NZ is being sent mixed messages when it comes to saving. Why save if the Government is going to pick up the bill for health and superannuation, and any incremental dollar earned gets taxed at a higher rate? Why invest in productive assets when the Government is giving free money to buy a house? Alas, tackling such issues is simply not the way you win elections.
  - **The rhetoric around getting people back into the work force needs to be matched by the incentives.** While the Working for Families package improves work incentives by widening the wage benefit gap (to a degree), it also contains a number of disincentives for some outside the workforce from re-entering, and disincentives to increase income from paid work (due to high effective marginal tax rates). National's tax package - which contains lower effective rate thresholds and a higher after tax income to all - provides greater incentives to work and get ahead.
  - **A sound strategy for the energy sector.** The current set up does not work and there are no viable options being presented by challengers. National's position on the issue is strangely silent.

## Some misguided thinking

- **Using expenditure rather than tax policy for targeted assistance.** If the Government's primary aim is redistributive and providing social support, then such aims should be undertaken through the most efficient mechanism. Using tax as opposed to spending policy is preferable for three reasons. It delivers better incentives (a hand-up rather than a hand-out), is more efficient (less bureaucracy), and can be better targeted. While Working for Families has welcome objectives, we question the funding mechanism and the package is situation rather than needs-based. Individuals and couples could be struggling more than families.
- **Some targeted initiatives deliver poor economic incentives or are ill-targeted.** Just because there is a role for government intervention does not mean it should become the automatic policy setting. Strong hurdles should be established. When we cast our eyes over some of the proposed initiatives (for example, Labour's student loans package, and parts of NZ First's immigration policy), we struggle to see how they will enhance economic prospects or aid in Government's redistributive role.
- **Labour's student loan package.** Free money on offer. You have to pay it back but there is an arbitrage opportunity in the meantime to invest. Borrow at zero percent and invest at 6 percent plus. Do not use the money you earn over the summer holidays to pay your fees – invest it instead. There is a similar incentive for parents who would previously have assisted with fee payments and living costs. Get your son / daughter to borrow the maximum amount and invest it in the meantime. Pay down your child's loan when required, by which time your returns will have partially covered the principal. If student debt is an issue, then government should at least look at the root cause of the problem – the level of student fees, student assistance (the point at which allowances cut out through means-testing) and / or what contribution to education should be state versus individually funded. If you want to spend \$300 million assisting tertiary students, why not offer some sort of scholarly incentive for performance?
- **Superannuation policy.** Any promised increases in superannuation entitlements may be a vote winner but any pledges are hollow when you look at the numbers. The old-age dependency ratio is projected to climb

by 20 percentage points over the next 45 years, dramatically reducing the number of workers supporting each retiree. Health and superannuation spending are expected to rise to 20 percent of GDP! Health and superannuation spending currently account for 32 cents of each tax dollar taken. By 2030, this will rise to more than 50 cents. What will happen to other government spending such as education, roading, and core government services if taxes do not rise to compensate? The Cullen Fund is part of New Zealand's superannuation solution, although not for economic reasons. The primary justification for the fund is that it encourages a degree of fiscal restraint by allowing the money to be implicitly shifted out of the politician's hands and reigning in frivolous spending. But the fund does not change the fundamental financing problem New Zealand faces in the future. The existing superannuation framework is unaffordable and promises of greater assistance (NZ First), or maintaining the status quo (Labour and National) are hollow. With demographics currently very favourable, the government should be getting smaller as a share of the economy rather than larger, particularly as we know the government's share will rise significantly when the demographics turn against us.

- **Scare-mongering over asset sales.** There are strategic reasons for holding stakes in natural monopolies such as Transpower and some of the energy generation assets. But the debate should be moved forward from previous disagreement over asset sales handling over who sold what, purchased back, and at what price to the future. There is a simple choice to be made going forward. Is the government and economy better off investing in coal production, investing in rural land, owning 75 percent of the country's electricity generation assets and a television network, or in areas where there are clear public good benefits such as schooling, health, and roading?

### The upshot

National's policy platform looks to offer marginally more economic upside in terms of overall living standards, while Labour offers more social support. Beyond that, when we step back there are few fundamental differences between the red and blue hue. NZ First's platform is long on promises but short on costings. The Green environmental platform has sound underpinnings although the economic cost of meeting such obligations is likely to be unpalatable. Most encouraging is the commitment by all to a strong and vibrant economy, although none are prepared to tackle the really hard issues that could make a difference going forward. But since NZ already has a winning framework (an independent central bank, free floating currency, responsible fiscal management, and a relatively flexible wage bargaining framework) perhaps the overarching aim of the new government should be to first do no wrong. Unfortunately, that is not what Government's think they are elected for.

## New Zealand Labour

Area	Policy	Pros	Cons
Economy	<ul style="list-style-type: none"> <li>• There is a commitment to responsible fiscal management.</li> <li>• <i>Kiwisaver</i>. Voluntary scheme, enabling people to put 4% or 8% of salary into a savings fund with personalised accounts. Government will contribute \$1000. After being a member of Kiwisaver for 3 years, applicants can obtain a \$1k suspensory loan for each year of membership (max \$5k) to go towards the purchase of a low cost 'starter' home.</li> <li>• NZ Housing Corporation's <i>Mortgage Insurance Scheme</i> extended, allowing applicants to borrow for property on zero deposit - bad debts insured by charging a premium of 3% of which 1% is paid for by owners and 2% by government.</li> </ul>	<ul style="list-style-type: none"> <li>• The Minister of Finance's overall fiscal management has to be acknowledged. Election bribes are limited to student loans and tax relief (and are affordable).</li> <li>• Having people own their own homes appeals to the 'NZ way', as does giving people 'a hand up'. Having people own their homes is viewed positively by assisting an "ownership" society.</li> <li>• Housing is a form of saving (although it does little to raise productive capacity).</li> </ul>	<ul style="list-style-type: none"> <li>• Kiwisaver is a first home buyers' grant in disguise.</li> <li>• Zero deposit schemes ignore that ability to save for a deposit is an indicator of ability to service debt.</li> <li>• Alters pricing signals for owning versus choosing to rent. Favouring housing as an asset.</li> </ul>
Tax	<ul style="list-style-type: none"> <li>• <i>Fiscal drag</i>. Tax brackets adjusted in 2008 and three-yearly thereafter.</li> <li>• \$1.5b of tax relief for low income families with children. Delivered through Inland Revenue but viewed as an extension of Working For Families announced in 2004 Budget.</li> <li>• Rates rebates of up to \$500 for annual rates bill available to low income earners. Eligibility threshold altered.</li> <li>• The carbon tax will be recycled back into businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation-adjustment for fiscal drag is necessary and well overdue (although it should be wage rather than inflation adjusted).</li> <li>• Extension of Working For Families is consistent with government's redistributive role, targeted to put more money in pockets of low/middle income households.</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal creep will be embedded in our tax system.</li> <li>• The policy is guided by redistribution rather than efficiency.</li> <li>• Does it encourage state dependency?</li> <li>• Raises a more fundamental question about cause of rises in rates.</li> <li>• Raises admin and regulatory costs.</li> </ul>
Health	<ul style="list-style-type: none"> <li>• Total \$1.09b pa increased spending by 08/09 announced in Budget 05.</li> <li>• Some additional policies announced since then, smaller in cost (e.g raising number of cataract ops and hearing tests for children).</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasis on primary health and children – screening and early intervention rather than the ambulance.</li> <li>• Builds on current structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Retains 21 DHB's and 79 PHO's and the attendant potential for duplication.</li> <li>• No mechanism to improve productivity and system lacks clear pricing signals.</li> <li>• Are the measures sufficient to address waiting lists and DHB deficits?</li> </ul>
Education	<ul style="list-style-type: none"> <li>• <i>Tertiary</i>. Abolish interest on student loans for current students and graduates living in NZ. Cap tertiary fees, increase eligibility for student allowances. Increase scholarships in areas of skilled shortages.</li> <li>• <i>Early Childhood Education (ECE)</i>. Increase funding by \$152m over 4 years. Build up to 65 community-based centres, preparing for 20 hours of free ECE for 3-4 year olds from 2007. Registration of teachers by 2012.</li> <li>• <i>Modern apprenticeships</i>. Increase the number of apprenticeships. Have at least 80% of apprenticeships to be under 21 years of age.</li> <li>• <i>Primary schools</i>. Reduce teacher:student ratio to 1:15</li> </ul>	<ul style="list-style-type: none"> <li>• Education is a public good (has benefits that accrue to the economy in addition to the individual). Therefore some government funding is welfare-enhancing.</li> <li>• Higher tax revenue from graduates staying in NZ.</li> <li>• Scholarships encourage investment in areas of labour shortages.</li> <li>• Lower unemployment decreases social spending, increases tax revenue.</li> <li>• Targeted supplement/welfare.</li> <li>• Registration to ensure consistency and basic education requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Inefficient use of funds. Not addressing cause of high debt, and creates perverse incentives to borrow.</li> <li>• Potential for higher uptake of education: cost could be higher than forecast.</li> <li>• Potential for educational choices where benefits do not outweigh the cost.</li> <li>• Wage rates attract people to the trades – the market is functioning properly.</li> <li>• Where is the evidence of educational improvements moving from 20 to 15? Capital cost of new classrooms. Availability of teachers.</li> </ul>
Social Welfare	<ul style="list-style-type: none"> <li>• <i>Working for Families</i> package. Multi-faceted targeted benefits, aimed at middle-income families with children.</li> <li>• Elderly in care retain \$150k of assets before contributing to cost of care – follows recent extension by Labour.</li> </ul>	<ul style="list-style-type: none"> <li>• It is affordable and accords with redistributive role identified with a Labour government.</li> <li>• Targeted benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• Inefficient use of resources. Why take with one hand, give back with other when can just cut taxes?</li> <li>• Raises admin cost.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• <i>Land Transport Fund</i>. Total forecast spending of \$8.4b over 4 years.</li> </ul>	<ul style="list-style-type: none"> <li>• Addresses roading infrastructure which has lagged wider economic growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Without pricing mechanisms it is unlikely to ease congestion (supply-led).</li> </ul>

**National**

Area	Policy	Pros	Cons
Economy –	<ul style="list-style-type: none"> <li>• National's Five Point Plan for NZ covers living standard, literacy and numeracy, welfare dependency, equality and security.</li> <li>• Cuts in personal and company taxes.</li> <li>• New Act incorporating best of Employment Contracts Act and Employment Relations Act – 90 day probation for new workers.</li> <li>• Overhaul Holidays Act.</li> <li>• Substantive amendment to Resource Management Act (RMA).</li> <li>• Preserve property owners' rights to determine access to land.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax cuts will be phased in at an appropriate time in the business cycle.</li> <li>• Constrains size of government</li> <li>• Amendment of RMA has the potential to improve the business environment and cut a significant barrier to some investment.</li> <li>• Restricting public access to farms protects property rights.</li> <li>• Economically sound - good incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Tax cuts will encourage consumption and imports exacerbating poor current account position.</li> <li>• Doesn't tackle NZ's poor savings record.</li> <li>• Holidays - allowing 4<sup>th</sup> week to be worked and paid by agreement – doesn't address costs, employees may be pressured to work.</li> </ul>
Tax –	<ul style="list-style-type: none"> <li>• Package costing \$3.9 billion by third year.</li> <li>• Phased tax cuts over the first term.</li> <li>• Changes to personal tax thresholds phased in April 2007 and 2008.</li> <li>• Company tax rate will be reduced to 30% in April 2008.</li> <li>• Carbon tax to be scrapped.</li> <li>• Changes to secondary income withholding tax rates.</li> <li>• Changes to threshold and abatement rate of Working for Families (WFF) package, which will keep the effective tax rate on extra income low.</li> </ul>	<ul style="list-style-type: none"> <li>• Corrects for fiscal drag.</li> <li>• Strong fiscal position provides the scope: <ul style="list-style-type: none"> <li>➢ there are substantial fiscal surpluses;</li> <li>➢ the government's accounts include sizeable provision for further initiatives</li> </ul> </li> <li>• Little material impact on interest rates (allocated spending vs tax cuts).</li> <li>• Provides positive work incentives – marginal tax rates lower than under WFF.</li> <li>• Looks to assist state dependency.</li> </ul>	<ul style="list-style-type: none"> <li>• Involves trade-off with government spending (reduced growth in government spending) and/or debt reduction.</li> <li>• Little room for new spending initiatives.</li> <li>• How will public sector waste and low quality spending be identified?</li> <li>• Potential for negative impact on public sector morale, services and recruitment.</li> <li>• Why delay reduction in corporate tax rate if "right" policy?</li> </ul>
Health – No major structural changes	<ul style="list-style-type: none"> <li>• No major structural change to the health system.</li> <li>• PHO system retained, but reviewed as part of a policy to identify areas of poor productivity and where efficiencies can be gained.</li> <li>• Full review of the functions performed within the MoH and entities</li> <li>• Gradually remove unnecessary administration, duplication and fragmentation within 21 District Health Boards and 79 PHO's</li> <li>• Use public/private partnerships and private providers where public system lacks the capacity to deliver services.</li> <li>• Will announce policy on universal funding.</li> </ul>	<ul style="list-style-type: none"> <li>• The sector will not be forced to go through another round of radical restructuring.</li> <li>• Anecdotal evidence suggests there is some duplication which could be targeted.</li> <li>• PHO's retain a more 'holistic' approach to health.</li> <li>• Accessing the private sector utilises the full capacity of NZ's health system.</li> <li>• Given funding constraints, does it make sense to subsidise GP visits for all?</li> </ul>	<ul style="list-style-type: none"> <li>• Retains 21 DHB's and 79 PHO's and the attendant potential for duplication.</li> <li>• How will areas of poor productivity be identified?</li> <li>• More reviews, reviews, reviews ...</li> <li>• If universal allowance scrapped, at what income level will the subsidy be capped?</li> <li>• Are the measures sufficient to address waiting lists and DHB deficits?</li> </ul>
Education – Some decentralisation	<ul style="list-style-type: none"> <li>• Retain but overhaul NCEA including more competitive rankings.</li> <li>• Bulk funding, more integrated schools and relaxed zoning laws.</li> <li>• Reading and maths vouchers for children who do not meet national standards by age seven.</li> <li>• Tight controls for tertiary enrolments and funding.</li> <li>• Interest payments on student loans tax deductible.</li> <li>• A tax deduction on childcare expenses for working parents.</li> </ul>	<ul style="list-style-type: none"> <li>• More flexibility in the education system.</li> <li>• Reading and maths targeted.</li> <li>• Addresses concerns re-tertiary courses.</li> <li>• Tax deduction gives flexibility for child-care provisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Teacher resistance to bulk funding.</li> <li>• By reacting to criticisms of some tertiary courses does the policy undervalue non-degree tertiary courses more generally.</li> </ul>
Social Welfare –	<ul style="list-style-type: none"> <li>• More thorough medical evaluation for beneficiaries.</li> <li>• L-T unemployed to be available for community service or training.</li> <li>• Strict conditions and requirement placed on DPB recipients.</li> <li>• Beneficiaries to present pre-school children for health checks.</li> <li>• Continue NZ Superannuation at 65% of the av wage from age 65.</li> <li>• Elderly in care retain \$150k of assets before contributing to cost.</li> </ul>	<ul style="list-style-type: none"> <li>• Retains social welfare safety net, but target policies to reduce the number of dependents and reduce potential for exploitation on the system.</li> <li>• Does not over-commit to a growing senior population.</li> </ul>	<ul style="list-style-type: none"> <li>• The 'big stick' approach to dependents rather than offering the carrot (although the carrot resides in the tax package!).</li> <li>• Medical diagnosis is not black and white – puts emphasis on medical profession, what is the balance?</li> <li>• DPB provisions could be seen as punitive.</li> </ul>
Trade and Foreign Policy	<ul style="list-style-type: none"> <li>• Commitment to multilateral trade through WTO Doha Round.</li> <li>• Restore relations with US.</li> <li>• Advance a bilateral agreement with China.</li> </ul>	<ul style="list-style-type: none"> <li>• Trade and investment agreements present opportunities for business.</li> <li>• The best opportunities lie through Doha.</li> </ul>	<ul style="list-style-type: none"> <li>• A bilateral agreement with China would need to be comprehensive , protect property rights and be enforceable.</li> </ul>

## New Zealand First

Area	Policy	Pros	Cons
Economy	<ul style="list-style-type: none"> <li>• Re-establish NZ ownership of key infrastructure.</li> <li>• First right of refusal on resale of former state owned assets.</li> <li>• Upgrade highways and rail tracks.</li> <li>• Incentives for infrastructure investment.</li> <li>• Require fund managers to invest in NZ infrastructure.</li> <li>• Raise minimum wage from \$9.50/hr to \$12/hr.</li> </ul>	<ul style="list-style-type: none"> <li>• There are strategic reasons for holding stakes in natural monopolies.</li> <li>• Infrastructure investment has lagged the wider–economy.</li> <li>• Potential to improve movement of goods.</li> <li>• Encourages private investment in infrastructure.</li> <li>• There is some sympathy for increasing wages for those on minimum wage.</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal cost, removal of market discipline creates a distortion in market.</li> <li>• Lack of details. Will depend on how upgrade is funded and implemented. Capacity may constrain ability to deliver.</li> <li>• Reduction in funds' ability to hedge and manage risk. Distorts market signals.</li> <li>• Marginal employment opportunities could be priced out of the market. Could boost unemployment amongst the low-skilled.</li> </ul>
Tax	<ul style="list-style-type: none"> <li>• Corporate tax rate to 30 percent.</li> <li>• 20% tax rate on new export net income.</li> <li>• Tax incentives for R&amp;D leading to increased employment and export creating ventures.</li> <li>• Accelerated depreciation rates for approved investments and certain industries.</li> <li>• Eliminate GST on petrol.</li> </ul>	<ul style="list-style-type: none"> <li>• It is one way of returning some of the fiscal surplus.</li> <li>• Policies are aimed at enhancing long–term growth prospects.</li> <li>• Creates incentive to develop in key industries.</li> <li>• May dampen inflationary impact of increasing oil prices.</li> </ul>	<ul style="list-style-type: none"> <li>• “Picking winners”. Incentives to export rather than sell domestically.</li> <li>• Difficult to administer. Administration cost. Creates uneven playing field.</li> <li>• Fiscal cost of removing GST, increased incentive to use a vehicle at a time when roading infrastructure is already under pressure, doesn't address impact of fuel imports on NZ's trade balance.</li> </ul>
Health	<ul style="list-style-type: none"> <li>• Increase health spending to 10 percent of GDP.</li> <li>• Explore options to boost private health insurance.</li> <li>• Free doctor visits and prescriptions for primary school children.</li> <li>• Reduce proportion of places at medical training organisations that are available to foreigners.</li> <li>• Bonding/abatement to reduce cost of medical qualifications.</li> </ul>	<ul style="list-style-type: none"> <li>• Addresses current funding “shortage”</li> <li>• Acknowledge need for ‘self provision’.</li> <li>• Emphasis on children, primary health and seeking healthcare early.</li> <li>• More places for NZers?</li> <li>• More chance that doctors remain in NZ.</li> </ul>	<ul style="list-style-type: none"> <li>• Light on costings, throwing money at health can be a ‘black hole’.</li> <li>• Why stop at primary school age?</li> <li>• Training is nationality rather than ability based.</li> <li>• Why not extend to other students?</li> </ul>
Education	<ul style="list-style-type: none"> <li>• Limit the number of fee paying foreign students.</li> <li>• Universal student allowance for tertiary education.</li> <li>• Increased subsidies for tertiary courses in science and technology.</li> <li>• Student loan interest rate at CPI inflation rate plus 2 percent (CPI only when studying).</li> <li>• Reduce class sizes in lower decile schools.</li> </ul>	<ul style="list-style-type: none"> <li>• Removes income inequality between studying and being unemployed.</li> <li>• Incentives to study targeted courses.</li> <li>• Provides better incentives than Labour's alternative.</li> <li>• Potential to improve education outcomes in lower socio-economic areas?</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal cost. Negative signals to international education market.</li> <li>• Does not address reason students aren't studying science and technology – jobs and pay rates.</li> <li>• Are the resources available to reduce class size?</li> </ul>
Social Welfare	<ul style="list-style-type: none"> <li>• Community wage requiring attendance at industry training, conservation or youth corps, or military style discipline.</li> <li>• Senior citizen discount card.</li> <li>• Increase superannuation to a minimum of 72.5% (rather than 65%) of average income.</li> </ul>	<ul style="list-style-type: none"> <li>• Fosters work ethic and increases employability.</li> <li>• Carefully targeted benefits.</li> <li>• Higher retirement income.</li> </ul>	<ul style="list-style-type: none"> <li>• Politically unpopular.</li> <li>• Rather than discounts, better to target retirement income.</li> <li>• Increased reliance on government funded retirement income. Stress on public finances. Unaffordable.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Double the size of the police force over 5 years.</li> <li>• “Drastic reduction” of immigrant flows.</li> <li>• Probationary period for new immigrants.</li> </ul>	<ul style="list-style-type: none"> <li>• Directly addresses public concerns over safety, crime and the community policing levels.</li> <li>• Reduced demand pressure?</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't address police recruitment difficulties. Is there adequate training infrastructure to meet new intake?</li> <li>• Pool of skilled labour decreases.</li> <li>• Negative perception of migration policy overseas, could deter quality migrants.</li> </ul>

**Greens**

Area	Policy	Pros	Cons
Economy – ‘Thinking Beyond Tomorrow’	<ul style="list-style-type: none"> <li>• Better measurement of negative externalities, passing costs back to origin - tax on ‘bads’ not ‘goods’</li> <li>• Strong social provisions; government investment in small business centred around local communities</li> <li>• Funding for public transport, water, sewerage and essential services, finance for business to convert to sustainable practices, community owned banks, community development fund and support for local projects</li> <li>• Modify National Accounts to take account of social indicators and degradation or restoration of resources</li> <li>• Scrap dedicated super fund, instead investing in NZ</li> <li>• Some concession that these are long-term objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term focus, building a level playing field for ‘green’ business and practices</li> <li>• Addresses need to better measure negative externalities in some areas</li> <li>• Strong on ‘fairness’ and minimising intergenerational impacts of pollution and consumption of resources</li> <li>• The concession that these are long-term objectives and (implicit) acceptance of gradual implementation is a reality check against some far-reaching reforms which have not been fully costed</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of expansive social provisions</li> <li>• Property rights, allocative efficiency, impact on business and transitional and long-term costs of moving way from market to new framework of incentives</li> <li>• Discriminating between beneficial and non-beneficial activities is subjective</li> <li>• Significant economic costs associated with rising energy and resource prices and increased tax on business – loss of competitiveness, particularly exporters</li> <li>• Value judgements – whose values?</li> </ul>
Tax – Eco–Tax Reform Policy	<ul style="list-style-type: none"> <li>• Tax on ‘bads’ not ‘goods’</li> <li>• Tax raised on polluters, consumers and resources and redirected to programmes and reducing income taxes</li> <li>• Remove all tax on first \$5000 of income for every one</li> <li>• \$300m per annum from new diesel taxes</li> <li>• \$300m per annum from carbon charge of \$10/tonne of CO<sub>2</sub></li> <li>• Increase tax deductibility for donations and community projects</li> <li>• Crown rentals from minerals and fish stocks</li> <li>• Ecological Tax Reform Commission</li> </ul>	<ul style="list-style-type: none"> <li>• Shifts taxes off work and enterprise onto waste, pollution and scarce resources</li> <li>• Additional costs ensure social costs of actions better match private costs</li> <li>• Uses tax system to provide incentives to reduce waste and pollution</li> <li>• Sides with international concerns about CO<sub>2</sub> emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Very light on detail about fiscal impact of radical changes to the tax framework</li> <li>• Unclear how the framework would finance expansive social provisions</li> <li>• Administratively difficult, a complex system would be open to exploitation</li> <li>• Significant change to the business environment – tax framework appears unwieldy for business</li> <li>• Diesel is the economic lifeblood of the transport sector.</li> </ul>
Health – reducing drug related harm	<ul style="list-style-type: none"> <li>• Greater emphasis on preventative and primary health care</li> <li>• Retain Primary Health Organisations</li> <li>• Medical student debt write-offs, increases in staffing</li> <li>• Integrate complementary health care into public health system</li> <li>• Effective and evidence based drug education and treatment</li> <li>• Modernise outdated drug laws (decriminalising cannabis use)</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion of lifestyle, prevention and primary health care as an avenue for a healthier nation rather than treatment (ambulance at bottom of the cliff)</li> <li>• Recognises damage caused by drugs</li> </ul>	<ul style="list-style-type: none"> <li>• Little detail of costings</li> <li>• What is the evidence on efficacy of some complementary health practices, likely resistance from medical establishment</li> <li>• Does decriminalising personal drug-use send wrong message?</li> </ul>
Education – increases in funding	<ul style="list-style-type: none"> <li>• Increase funding and expand environmental, social and Maori learning provisions</li> <li>• Expand operations grants for special needs, alternative education, correspondence schools and early childhood</li> <li>• Student debt write-off scheme, progressive introduction of free tertiary education and universal student living allowance</li> <li>• Public on–campus transport, child-care and other services</li> </ul>	<ul style="list-style-type: none"> <li>• Recognises that there is a benefit to society from having a well-educated labour force</li> <li>• Encourages education and is fair to all</li> <li>• Politically, very palatable to students and those with a lot of student debt</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal impact of loss of revenue from fees</li> <li>• Tertiary students directly benefit from further education but do not individually bear any cost</li> <li>• Fiscal impact of funding a programme to write-off \$7 billion student debt and provide free education – no costings</li> </ul>
Social Welfare – increases in funding	<ul style="list-style-type: none"> <li>• Extensive income support</li> <li>• Maintain income related rents, increase government support for housing programmes, introducing Universal Child Benefit that can be capitalised, eco-friendly housing programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a safety net</li> <li>• Appeals to government’s redistributive role and fairness</li> <li>• Lifting bottom-tier housing standards would have positive health outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• How will the framework provide a path to the goal of a full employment economy?</li> <li>• What are the signals?</li> <li>• Who pays?</li> <li>• Greater potential for exploitation</li> </ul>
Trade and Foreign Policy	<ul style="list-style-type: none"> <li>• Trading relationships to help encourage ethical business, environmental responsibility and human rights</li> </ul>	<ul style="list-style-type: none"> <li>• Sides with sentiment regarding oppressive labour markets in some regions</li> </ul>	<ul style="list-style-type: none"> <li>• Restrictions on trade would come with economic costs to NZ</li> </ul>