

# Perspectives

ON TEXAS PUBLIC POLICY

## “Converting Challenges to Opportunities”

A keynote address by the Honorable Maurice McTigue

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When I became a Member of the Parliament of New Zealand, we were judged as the most socialistic of nations. We had been one of the richest of countries at #3 in per capita income, but by 1984 we were only #27. We had gone for 23 years relying on deficits, without balancing our budget. The government was taking 44 percent of the Gross Domestic Product, and, in 1984, our forecast deficit was 15 percent of the GDP.

Over the next 6 years, we shrank and finally eliminated our deficit. Between 1990-1993 – we went to surpluses of 6 percent of GDP. In the following three years, we retired three-quarters of our nation’s debt and reduced taxes each year. Said another way, we saved ourselves from bankruptcy without raising taxes.

Around the world, when we look at countries that have cut rates of taxation, revenue has gone up. For example, Turkey cut taxation by 40 percent, and revenue went up 27 percent; Ireland cut corporate and capital gains taxes by 50 percent and revenue went up; New Zealand cut income tax rates by 50 percent, and revenue was up 20 percent in the first year alone.

Legislators need to ask themselves why they became politicians. The answer is to achieve goals for the betterment of the community, with re-election the consequence of succeeding.

Legislators should shift accountability from what government has usually done, and ask instead how well the money was spent to produce the desired public benefit.

For example, legislators should debate how much money must be spent on health care, and how much money is available to be spent. Then, legislators should ask if the health of the people of Texas is getting better or worse. And ask by how much. They should ask which programs are most effective at improving the state’s public health. Is money being invested in those programs that are most effective at achieving the set goals?

In developing a state budget, legislators should be guided by principles that focus on public benefit. Some of these guiding principles could be:

- Taxes should not be increased
- Essential services must be maintained
- Competitiveness of local industries must be improved
- Private capital investment should be encouraged
- Non-essential activities of government should be eliminated
- Budget analysis should examine areas of highest spending and best results



411 Brazos St., Ste. 99  
Austin, TX 78701  
512-472-2700  
Fax 512-472-2728  
www.TexasPolicy.com

Legislators should focus on the *public benefit* they want to achieve. Every decision should then be checked for validity against those principles in achieving that benefit.

For example, we used two principles in New Zealand as a standard for decision-making during our deficit reduction years. First, what does this do to improve the competitiveness of industry? Second, what does this do to reduce the deficit? Legislators should own the process of budgeting.

Ask these kinds of questions. What is the role of ownership? Ownership gives the right to use something. But does government really need to own everything? More important than ownership for government is acquiring the capability you need to achieve the public benefit. Maybe government should lease instead of buy - buy services instead of assets. When government leases or buys services, the provider incurs the risks of ownership while the public benefit is being achieved.

For example, government can actually lease roads. You can contract the funding of the road when you contract the construction. You can specify the smoothness of the road and how long it should maintain that smoothness and be repair free. When New Zealand did this, we *cut our road construction and maintenance costs by 40 percent*, and with better quality roads.

Use competition. Competition is fundamental to good governance; without competition, government expands. For example how many different systems does the federal government need for accounting? The Defense Department presently has 1,100. The State Department has 79. In New Zealand today, there is only one accounting system for the entire government.

In New Zealand, competition is an essential tool of government. The government purchases goods and services from the best provider, choosing the best program or programs based on outcome-based scrutiny, a process that rightly focuses on outcomes, not just the activities.

New Zealand allows agencies to contract with each other for various services like data gathering. And New Zealand rewards efficiency – agencies can keep their annual productivity gains. The best experts said we'd only get about 2-3% annual productivity gains, but, with the reward of keeping the gain available, we're able to achieve as much as 11-15% annual productivity gains.

When I was Minister of Labor, we had 34 programs to bring people back into the workforce. The programs had been evaluated and applauded for asking such things as how much did people like being involved in them, did they provide a good mix with volunteers, was there high satisfaction. But no one had measured how good the programs were at getting people back to work. When we did that, we found only four programs were highly successful. I closed down the other 30 and put all our resources into the four effective programs. In the first year, we placed 300-percent more people into work for 40

percent less money. When people complained about the loss of their programs, the key to answering them was the evidence of the improved public benefit.

Mercatus Center did a study on vocational training programs sponsored by the federal government – how effective are they at putting people to work. Mercatus found the federal programs ranged in cost from \$500 to over \$29,000 per person placed into work. We discovered that if all the money were put into the three most effective programs, we could get 11 million more people to work than the 2.4 million currently being put to work.

At some point, people will start asking legislators why they didn't vote for more effective programs.

Government should consider commercializing or privatizing certain activities. Government needs to be involved in some specific activities, such as air traffic controlling, weather, and land registry. But in New Zealand, the Parliament decided users should be responsible for the costs. So, the government of New Zealand paid the public good cost of these activities but insisted that the user meet the balance of the costs. They also required these organizations to start paying taxes, paying dividends and making profits. When this happened, consumer fees actually went down, even though you might think the fees would go up.

How government gathers money is important. Governments regularly abuse the revenue system by giving exemptions. Legislators should consider removing all special exemptions and concessions in the tax system and lower the marginal tax rates accordingly. This will put tax revenues up, not down. They should move to deliver social policy by direct payment to the targeted, deserving cases, and they should move to broaden tax bases, not narrow them, so that every citizen pays at least a little for the provision of government goods and services. This eliminates the accusations that some people are freeloaders on the rest of the community.

In New Zealand, we quit giving tax credits and started giving direct payments to people. That way we could target exactly the people we wanted to give support to without smart lawyers and accountants getting their clients included when they did not deserve to be a beneficiary of the policy.

We started looking at our policy of universal inclusion of people and realized it wasn't always the best for the public good. The government took the pot of money it gave for a family benefit (child welfare credit) and phased out the people at the top while it gave more to those with greatest need. At the same time, the government dropped the tax rate for everyone, so those at the top didn't mind losing the family benefit. We wiped out all other taxes, including things like capital gains taxes.

The Parliament was able to accomplish these reforms because it tackled the whole problem at the same time. We had tried incrementalism, gradual and partial reforms, for years, but it didn't work. Why? Because people always remember their losses but rapidly

forget their gains. When the entire issue is addressed at the one time, then the trade-off between wins and losses occurs at the one time, and people accept that they got a good deal.

Education is one of the most important and expensive parts of government. It costs more and more to educate each child, while what you're receiving for the money isn't improving, or at least isn't as good as people demand and the economy requires.

In New Zealand, we were in the same boat. We discovered that for every dollar we spent on education, 70 cents was being consumed on administration. Our advisers told us we were over administrating. So, we placed control of all schools throughout the country in the hands of the parents and wiped out every school board and much of the Department of Education. This decision allowed us to hire more teachers, raise their salaries, build all the new schools we needed, provide a computer/child ratio of 1-to-3, and we had no classroom with more than 20 kids in it.

We also gave all parents the right to choose where their kids went to school. Within 18 months, the differential in educational attainment disappeared between public and private schools, and in 2.5 years, our kids in New Zealand, who had been lagging behind their peers in test scores, were now 15 percent above their peers.

To conclude, legislators can be successful at solving policy problems and get re-elected by:

- Stopping government from doing what it doesn't need to do
- Stopping government from doing things that don't work
- Refusing to reward government programs that perform badly
- Learning to say no
- Eliminating all spending that doesn't produce direct public benefits

*This transcript was produced by the Texas Public Policy Foundation from the audiotape available on the Worldwide Web at TexasAdmin.com. It was slightly modified for the written format with permission of the Hon. Maurice McTigue.*