

Reversing the Trend

They say a picture is worth a thousand words.



We believe the graph above clearly shows that bold decisions by the Government of the day do influence 'our place in the world'.

The benefits or otherwise of any such decision may lag its implementation, but the trend line, as depicted above, is subsequently altered. The trend, as a general observation, tracks positively following a decision that decreases the Government's role in the economy (NZ moves up the relative wealth curve in the OECD ranking graph above), and turns negative when Government's influence is increased (NZ moves down the relative wealth curve).

The members of the Foundation for Economic Growth Incorporated are concerned that unless we heed the words of Alexander Tyler and act decisively to reverse the current trend line our future is predetermined and our future form of Government may well be undemocratic.

"About the time the U.S. became a republic (1787), Alexander Tyler, a Scottish history professor at the University of Edinburgh, wrote the following about the fall of the Athenian Republic:

'A democracy is always temporary in nature; it simply cannot exist as a permanent form of government. A democracy will continue to exist up until the time that voters discover they can vote themselves generous gifts from the public treasury. From that moment on, the majority always votes for the candidates who promise the most benefits from the public treasury, with the result that every democracy will finally collapse due to loose fiscal policy, which is always followed by a dictatorship. The average age of the world's greatest civilizations from the beginning of history, has been about 200 years.'"

A Bold Decision Needed

Many people have proposed actions to reverse the current downward trend and we agree with all those contained within the concept of maximum freedom of the individual and minimum size of the government. Rather than reiterate these actions already widely discussed, there is one action, in particular, that we believe has merit for serious discussion and public comment.

Our proposal is to take the Government out of the loop between the taxpayer and the ownership of public organisations. That is, rather than the Government owning the shares in State Owned Enterprises on behalf of individual taxpayers, the taxpayers would own the shares directly.

This would be accomplished by the Government transferring shares in the SOEs in equal numbers to each taxpayer. A similar process was applied several years ago to transfer ownership of the local power boards/authorities to the local community and the outcome of that initiative has been generally considered a success.

We understand that the share distribution process may need substantial thought and should be exposed to wide public comment. It would not be possible or desirable to issue all shares at one time. We would recommend a succession of transfers over a period of years. The major organisations that are currently most closely functioning as a normal company would be transferred first and the others would follow as they became ready for transfer to the Stock Exchange.

One of the major advantages of this proposal is to teach people to think like shareholders and to understand the business world. This would encourage citizens to think about investing in productive national enterprises other than alternatives such as property.

As there would be a number of people who would like to sell their shareholding immediately and spend the money, which would negate this advantage, we would recommend that the shares be not transferrable for three years and then only in limited amounts for the next three years. During this period, shareholders would experience the benefits of owning the shares and the dividends accruing. Exceptions would be made for people over the age of 65 who may need the money immediately.

The government would lose the dividends from the SOEs but would increase its tax receipts from the wealthier population.

One major downside would be that the government would have to write off the value of the State Owned Enterprises from its assets. This burden would ultimately be borne by the taxpayers, so in a sense the taxpayers are not net beneficiaries but the change would make a considerable difference to how the average taxpayer thought about owning businesses on the share market and would convert ordinary people to thinking like capitalists.

Benefits which should accrue are:

1. Each taxpayer would become around \$10,000 wealthier,

2. Each taxpayer would then understand the benefits of owning shares in successful businesses,
3. Taxpayers would be more likely to vote for future governments with wealth producing ideas,
4. These Ex-State Owned Enterprises could then seriously focus their efforts on increasing the wealth of their shareholders and be answerable to their shareholders at AGMs,
5. Ex-State-Owned-Enterprises would not have the conflicts and problems of trying to respond to both political demands and shareholder imperatives as TVNZ has illustrated,
6. The Stock Exchange would receive a boost in numbers,
7. With their new-found understanding of wealth producing enterprises, taxpayers might be interested in voting for other good ideas that the 2025 Task Force and the Tax Task Force are working on.

This is one concrete proposal that should meet acceptance with taxpayers. The country desperately needs a bold action to reverse the trend line. This proposal would certainly generate interest!

We suggest that there is sufficient merit in the 'share transfer' concept to go to the next step of a wider review by an independent policy assessor.