

## Youngman Essay Competition

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Note: The views expressed in this essay are those of the author in his personal capacity and do not represent the views of any other person or organisation.

## 2009 Youngman essay

Question:

*A panel of economists have been asked by the Prime Minister to recommend policies to Government which will help New Zealanders to enjoy the same standard of living as Australians by 2025.*

*From a Biblical perspective, what are the most important issues that this panel - chaired by Don Brash - will have to address to ensure that New Zealand citizens have a safe, healthy, productive, viable, lawful and fulfilling future?*

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What is good for New Zealand's prosperity and how can it become a better place to live? The received wisdom from organisations like the New Zealand Treasury and the OECD, and the opinion of successive governments since 1999 has been that the key to safe, healthy, productive, viable, lawful and fulfilling future rests on the country's capacity to ramp up economic growth.<sup>1</sup> Similarly, the National Party and the ACT Party have set up a Productivity Commission—chaired by Dr Don Brash—to investigate ways New Zealand can do better. The logic is that sustained higher economic growth rates will put the country on a path to higher incomes, greater wealth and better living standards. A flourishing economy is crucial for so that families and communities can be vibrant, free from want and government dependency. However, we may be denying our families and communities the opportunity to enjoy more fulfilling lives if we hope higher economic growth alone will be their salvation. Instead we, and the panel chaired by Brash, should think more outside of the closed-box system of the economic formulas for a better world. A biblical perspective can provide a framework for how we can think about and decide what is important for helping families, communities and individuals to flourish while also providing the material wealth we require to be a productive, viable nation.

Opinions obviously differ on what a biblical perspective is, especially when it comes to gleaning insights about what the scripture has to say about how to govern well or solve complex social problems. One way of defining a biblical perspective on society, culture, government and more—all of life—is through the scriptural story.<sup>2</sup> The scriptural story begins with God's good act of creation and entrusting the stewardship of it to man. While man quickly falls to sin, the world remains in his care. The nation of Israel is supposed to do this by modelling a different way of living that, among other things, rests on the nation's care for the land and its people. A reason why these requirements were placed upon Israel was to remind them that their identity and obligations lay in something greater than themselves as individual people. They were first to God and then to the people and the land. The story of scripture continues with Christ coming and ends with the complete renewal of God's creation. If our lives are to be shaped by the scriptural story this means that the way we choose to live needs to be shaped by our place in the narrative.

What does this mean for New Zealanders living in the twenty first century and how our communities and government should respond to the challenge of making New Zealand a safer, more productive and desirable place to live? A biblical perspective captures New Zealand's place within the story. Twenty first century New Zealand sits in between when Christ came and creation's renewal. New Zealand's place in the story should shape our response to the social, political and economic problems which are preventing it from becoming a better place to live. In practice, this means the issues we, and the Commission, should be influenced by the task of social renewal. This is because we are a people who have inherited the promises God made to Israel and we bear a responsibility to model a different way of living that challenges the dominant culture of our time, especially when that culture undermines what is good for human life, dignity and worth. If we are a people that long for the completion and the restoration of creation then this is something that we should ache after.

The first issue the Commission should consider then is its conceptual framework for how it diagnoses and prescribes solutions for the problems facing New Zealand. This may mean it has to break with conventional political and economic thinking that predicates social renewal upon raising incomes and living standards through higher economic growth. For instance, this logic is apparent in National Party leader John Key's speech to the August 2008 Party Conference, where his vision for what kind of place New Zealand should be rested on its comparative economic performance with Australia:<sup>3</sup>

we must improve our economic performance. I worry greatly for our country's future if we don't. If we stay on the same growth course and speed, by 2030 the gap between wages here and wages in Australia will have risen to over 60%.

As important as these goals might be they are really a narrow vision for the economy—not a vision for what is good for people to live fulfilling lives or what kind of country New Zealand could be.

A vision for society would describe what is good for people, how society could function and the relative responsibilities of institutions like family, the justice system and government. On these issues, thinkers operating from a biblical perspective have valuable insights. For instance, Catholic social teaching defines what is good for people in relation to the common good. People's inalienable rights should be protected and they should be free to enjoy opportunities in life consistent with man's social nature, such as to pursue their vocation, and have freedom of religion.<sup>4</sup>

Writing a hundred years after the Roman Empire had converted to Christianity, the theologian Augustine also described in *The City of God* how love, for God and our neighbour, is the basis of society as it compels us to care for one another.<sup>5</sup> However, because man is corrupt and communities are torn apart due to selfishness, murder and more, love cannot prevail. Love is therefore dependent upon peace (*concordia*), but peace cannot be brought about without order. Augustine's formula of order, peace and love shows how people who display love for each other can be the foundation for a more just and compassionate society.<sup>6</sup>

By contrast, our current Government's reductive political and economic thinking presents a narrow picture of what is good for people and lacks of an overarching vision for a just society. Without a guiding narrative to guide decision making that values people as relational beings with self-dignity and worth—like the scriptural story—New Zealand may not be as materially or socially prosperous as it could or should be. The Commission would be prudent to think past the usual explanations for how the world works so that it may recommend a vision and policies that could renew society by, for example, creating the conditions for people to pursue their calling and recognising their obligations to care for one another.

Holding this framework in mind, what are some specific issues that the Productivity Commission should consider that could renew New Zealand? Three vital issues might be tax policy, government size and education. Experts and policy makers have had a better idea of what should be done to raise living standards and boost economic growth since the 1990s as economists have refined our understanding of what drives growth.<sup>7</sup> These issues are selected because they could raise growth rates and living standards, as well as helping more New Zealanders to live more fulfilling, renewed lives.

In the area of tax policy a pressing issue is high effective marginal tax rates of 80% or more that create disincentives for workers on middle and low incomes to want to work harder, longer or to seek promotion.<sup>8</sup> Further, research shows that high top on personal income tax rates, like New Zealand's 38% rate, reduce the likelihood of entrepreneurs starting a business.<sup>9</sup> This not only reduces the amount of wealth that can be generated, it also limits the opportunities for new and better quality goods and services to be produced, and reduces job creation. If tax policy frustrates wealth and job creation it prevents New Zealanders from earning the money they need to care for themselves and others and degrades the goods of human work and creativity—both of which are key productivity drivers.<sup>10</sup> Work and the pursuit of one's vocation are also good for people.<sup>11</sup> The Commission should consider the merits of lowering and flattening tax rates so that more people can enjoy the kind of opportunities that high taxes kill.

The Commission should also consider how much government we really need. Too much government sucks wealth out of our hands for little in return. At the moment, the government consumes about 37% of what we produce in GDP; not far off the 40% or more levels of the biggest OECD governments.<sup>12</sup> Social welfare and income support consumed the lion's share of New Zealand's Government spending in the 2009 Budget.<sup>13</sup> Two international economists, Vito Tanzi and Ludger Schuknecht, have studied whether higher government spending like this produced higher social welfare among 17 OECD countries.<sup>14</sup> To see if welfare got better or worse, they examined the change across a range of socioeconomic indicators, like health and education, following increases in government spending. They concluded that small governments "performed as well, or even better, on the basis of various socio-economic indicators, as countries with large governments."<sup>15</sup> Ludger and Schuknecht also found that higher public spending did not necessarily lead to better social outcomes. This led them to believe that higher spending countries "should aim at reducing their public spending to, perhaps, around 30 percent of GDP," and that "much of what governments want to achieve through public spending could be achieved by levels of spending ranging from, say, 25 percent to 35 percent of GDP."<sup>16</sup> The Commission should consider the merits of reducing unnecessary government spending so that taxpayers can keep more of what they earn to use as they see fit, for their families, their community or to investment in business or enterprise.

Lastly, the Commission should consider how education and schooling could be improved. Besides spending on infrastructure, when government spends money on education this makes the most difference to growth.<sup>17</sup> It also helps children to lead better lives. For instance, some OECD evidence shows that the average earnings of 25 to 64 year old New Zealanders in paid employment were 32% higher for those with tertiary education than those who had only completed upper secondary or some form of non-tertiary education, like a certificate or a diploma.<sup>18</sup> Education also has an important role in developing children's character and values. Ensuring children receive a quality education makes it more likely they will grow up to be loving, just and prepared citizens, able to contribute towards their community's common good rather than crime and poverty statistics.

If the Commission is to consider issues that will ensure New Zealand citizens have a safe, healthy, productive, viable, lawful and fulfilling future then it should dare to think differently about what is important for raising living standards and boosting economic growth. The Commission should reflect on the immaterial, "subjective" dimension of life.<sup>19</sup> A biblical perspective compels us to think more deeply about what is good for people and how we should respond. It can also offer many valuable insights into the immaterial aspects of life. A biblical perspective informed by the scriptural story indicates a message of renewal. This framework is one of the most important issues the Commission should consider as the framework it judges the issues against will determine the kind of solutions it offers. An approach to law and public policy shaped by a biblical perspective may prioritise the renewal of culture and society. Some pressing policy issues the Commission should consider if social renewal and greater prosperity are to occur include higher taxes and larger government, since they are harmful to New Zealanders' wealth creating potential and the opportunities they have to live more fulfilling lives. Ensuring New Zealand has the highest quality education system will also be critical. Renewing what is good for people, like work, education and the desire to succeed, perhaps stands the best chance of making New Zealand a better place to live.

## Endnotes

<sup>1</sup> The Treasury, "Putting Productivity First," *Productivity Paper*, 08/01 (Wellington: 2008); The Treasury, "Enterprise and Productivity: Harnessing competitive forces" *Productivity Paper*, 08/04 (Wellington: 2008); The Treasury, "Briefing to the Incoming Minister of Finance. Medium-term economic challenges" (Wellington: 2008); The Treasury, "New Zealand Economic Growth: An analysis of performance and policy" (Wellington: 2004); Organisation for Economic Cooperation and Development, "Economic Survey of New Zealand, 2009" (Paris: 2009); Organisation for Economic Cooperation and Development, "Going for Growth - 2008" (Paris: 2008); Organisation for Economic Cooperation and Development, "Structural Policy Priorities 2009: An overview," in *Going for Growth* (Paris: 2009); New Zealand Government, "Growing an Innovative New Zealand" (Wellington: 2002).

<sup>2</sup> A.M. Wolters, *Creation Regained*, Second ed. (Grand Rapids, Michigan: Eerdmans, 2005).

<sup>3</sup> J. Key, "National's Blueprint for Change," Speech to the Annual National Party Conference, Wellington, 3 August, (2008).

<sup>4</sup> John Paul II, "Centesimus annus" (The Vatican, 1991), S13.

<sup>5</sup> See in particular Augustine, *The City of God*, chapters, 4, 5 and 19. D.X. Burt, "Friendship and Society. An Introduction to Augustine's Practical Philosophy" (Grand Rapids, Michigan: Eerdmans, 1999), 120-121.

<sup>6</sup> L. Newbigin, *Foolishness to the Greeks. The Gospel and Western culture*, (Grand Rapids, Michigan: Eerdmans, 1986), 103-104.

<sup>7</sup> Beginning with "new growth literature" studies such as , R. Barro, "Government Spending in a Simple Model of Endogenous Growth," *Journal of Political Economy* 98 (1990): s103-117; R. Barro, "Economic Growth in a Cross-section of Countries," *Quarterly Journal of Economics* 106, no. 2 (1991): 407-443. Also see G.D. Myles, "Economic Growth and the Role of Taxation," *Working Party No. 2 on Tax Policy Analysis and Statistics*, CTPA/CFA/WP2(2007)8 (Paris: Organisation for Economic Cooperation and Development (OECD), 2007).

<sup>8</sup> J. Shewan, "Tax Reform in New Zealand in a Global Financial Crisis." Presentation to the University of Auckland Business School "Distinguished Speaker Series," May (2009); Inland Revenue Department, "Briefing for the Incoming Minister of Revenue" (Wellington: 2008); S. St John, "Tax, Saving, Welfare and Retirement: Have we lost our way?" Presentation to the Retirement Policy and Research Centre Symposium '09, 16 July (2009).

<sup>9</sup> H. J. Schuetze and D. Bruce, "Tax Policy and Entrepreneurship" (Department of Economics, University of Victoria, Center for Business and Economic Research and Department of Economics, University of Tennessee, 2004); W.M. Gentry and G.R. Hubbard, "Tax Policy and Entrepreneurial Entry," *American Economic Review* 90 May (2000): 283-287.

<sup>10</sup> The Treasury, "Putting Productivity First."

<sup>11</sup> Pope John Paul II, "Laborem exercens" (The Vatican: The Holy See, 1981).

<sup>12</sup> New Zealand Government, "Key Facts for Taxpayers. Budget 2009" (Wellington: 2009), 2; C. Heady, "Directions in Overseas Tax Policy." Paper prepared for the "Australia's Future Tax and Transfer Policy Conference 2009," the Melbourne Institute, 18-19 June (2009).

<sup>13</sup> New Zealand Government, "Key Facts for Taxpayers. Budget 2009," 2.

<sup>14</sup> V. Tanzi and L. Schuknecht, *Public Spending in the 20th Century* (Cambridge, U.K.; New York: Cambridge University Press, 2000).

<sup>15</sup> V. Tanzi and L. Schuknecht, *Public Spending in the 20th Century*, 248.

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<sup>16</sup> V. Tanzi and L. Schuknecht, *Public Spending in the 20th Century*, 249.

<sup>17</sup> N. Gemmell, R. Kneller and I. Sanz, "The Timing and Persistence of Fiscal Policy Impacts on Growth: Evidence from OECD countries" (Wellington: 2009).

<sup>18</sup> Ministry of Education, "Impact of Education on Income" (Wellington: 2008), citing ,Organisation for Economic Cooperation and Development, "Education at a Glance: OECD indicators 2007" (Paris: 2007).

<sup>19</sup> John Paul II, "Centesimus annus."