

## **If We Know What To Do, Why Don't We Do It?**

Last week journalist Deborah Hill Cone posed an interesting question.

If we know what it takes to be a prosperous country, why don't we do it?, she asked.

It's certainly the case that we know what makes for prosperity. For over two hundred years the essential nature of the 'wealth of nations' has been understood.

Adam Smith didn't get everything right, and economics has been refined since his time, but his basic insights into the virtues of free markets and limited government have stood the test of time.

Modern economics confirms that the key to prosperity is the institutions (broadly the rules that govern economic and social interactions) and policies that nations adopt.

Institutions and policies in democracies are decided through the political process. Thus it is how people vote that matters, and whether we choose prosperity or not depends ultimately on public understanding.

Views about how the economic world works are not mainly a matter of political persuasion.

For 50 years from the 1930s, all New Zealand governments followed inward-looking, Fortress New Zealand policies. They reflected public opinion, shaped by arguments for protection of domestic industries from import competition.

By the 1960s it was clear that the country's formerly high relative living standards were in serious decline. But a do-nothing Holyoake government resisted change at a time when it wouldn't have been unduly disruptive. Holyoake was elected four times – his government reflected public opinion.

From the mid-1970s the Muldoon government basically intensified interventionist policies, despite spasmodic efforts at liberalisation. Muldoon presented himself as an economic wizard. He was contemptuous of the average person as someone who “wouldn’t recognise a deficit if they fell over it.”

It took nine years of Muldoonism and a gathering economic crisis before voters realised they had been conned.

The subsequent Lange-Douglas government overturned Fortress New Zealand policies and brought New Zealand into the economic mainstream. The changes were regarded by many as radical but only because New Zealand had been such an outlier in policy terms.

The Lange-Douglas government made great efforts to communicate the need and rationale for changes. Voters understood and the government was re-elected with an increased majority before it fell apart.

Fast forward to the last decade when another Labour government held office for nine years. Despite talking about ‘failed reforms’ it did not fundamentally change their essential features. Why? Because general public opinion understood their merits and would not have tolerated major reversals.

However, it also took New Zealanders nine years to realise that the Clark-Cullen government’s goal of returning New Zealand to the top half of the OECD was also a con. They then elected the present government which is focused more on wealth creation than redistribution.

This potted history suggests that New Zealand voters are not dumb. But they can be misled and slow to wake up, sometimes only reacting in the face of imminent economic crisis.

In part this probably reflects the tyranny of distance. For half a century the relative success of western nations was not well understood in this distant country. Today there is too little appreciation of the extraordinary rise of emerging nations in Asia and elsewhere, and the reasons for their success.

One such reason is the absence of cradle-to-grave welfare which has blunted incentives for work and pressures for change in New Zealand.

Another point is that sound economics is often not intuitive. Economic myths about issues such as privatisation and industrial development abound. Anti-business, anti-market and anti-foreigner sentiments are always present.

Democratic governments may also not do the right thing because the influence of special interests often prevails over the public interest. This used to take forms such as businesses lobbying for protection and farmers for subsidies, and is still seen today in unions lobbying for a regulated labour market.

It's not as though New Zealanders don't want to be more prosperous. Surveys suggest that they share the values of citizens of other countries about things such as environmental quality; what stands out is their desire to be materially better off.

For the reasons outlined, however, such desires are not easily translated into policy. Sometimes electoral systems don't help: MMP involves a more representative process but arguably less representative outcomes (for example, decisive action when voters understand the need for it).

In the final analysis there is no substitute for political leadership. Who can doubt the role of Lee Kuan Yew in Singapore's prosperity or Margaret Thatcher in Britain's turnaround? Politicians are society's main opinion leaders. Think tanks, media, academics and others can help (or hinder), but can only do so much.

New Zealand is again in serious economic difficulties. Will it take another crisis to force necessary changes? Or will there be sufficient political leadership and public understanding to get on and do what needs to be done?

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