

## **Opportunities and Challenges In The Year Ahead**

On a visit to New Zealand in 1891, the poet Rudyard Kipling wrote, "To tell you the truth, I never was in a place where they talked more about work and did less of it."

There must have been an element of truth in his remark. For years a common sight was a Ministry of Works roadman leaning on his shovel and workers walking off the job in wildcat strikes.

Much has changed in today's more competitive economy. Most New Zealanders work quite long hours by international standards, although welfare rules allow too many to give up work and live on a benefit.

Instead, if Kipling were to return to New Zealand today, he might observe that he had never seen a country that talked more about lifting growth and living standards and did less to make it happen.

Again, this is not quite true. In the 1970s the Planning Council targeted a rate of real GDP growth of 3% a year. This was achieved after the economic reforms of the 1980s and early 1990s, which halted the country's relative slide.

As commentator Matthew Hooton wrote in this month's *Metro*, they were entirely mainstream, not earth-shattering; they did not fail; and they saved the country from becoming a basket case.

Why is it so hard for political leaders to explain this record, and why extending reforms must be a never-ending process?

Instead we have had long periods of inertia and policy backsliding, and rhetoric about goals unaccompanied by meaningful action.

The Bolger-Birch government set a goal of a 3.5 – 5% growth rate to 2010; Winston Peters as Treasurer upped the stakes to 6%; and the Clark/Cullen

government targeted a return to the top half of the OECD income ladder. All failed dismally.

The Key government has set a goal of closing the income gap with Australia by 2025, and described it as "concrete", not merely aspirational. There will be political costs if it fails to deliver.

To date the gap is widening, not narrowing – from 35% when the government took office to 38% on the most recent figures.

So far the government's efforts to promote faster productivity and income growth have been modest. None compares with past changes such as import liberalisation, the floating of the dollar, the Reserve Bank Act, the freeing up of the labour market, the Fiscal Responsibility Act, corporatisation and privatisation, and producer board reform.

Nevertheless, in the current year and beyond there are several items on the government's agenda that could be as significant as earlier moves.

One is a planned bill to strengthen our fiscal institutions and introduce an explicit cap on government spending. This could do much to lower the real exchange rate and expand tradeables production. The Treasury recently released a good background paper on the subject.

The government is also expected to introduce the Regulatory Responsibility Bill proposed by a 2009 Taskforce. This could rank with the Reserve Bank Act and the Fiscal Responsibility Act as a world-leading 'regulatory constitution'.

Welfare reform will be on the government's agenda when an advisory group reports next month. Changes to welfare rules and labour market barriers to work could greatly reduce dependency and contribute to growth.

Planned moves to open up accident insurance to private sector competition come into the 'major reform' category, although leaving ACC to compete in the market would be a mistake.

Beyond the election, the government is foreshadowing forms of privatisation, including public-private partnerships. New Zealand has fallen well behind other countries in implementing such initiatives.

It should also open up the state monopoly education system to more choice and competition, as advocated in two parliamentary reports last year.

All this could amount to a substantial agenda. Alternatively, we could once again see a government paying only lip service to its goals.

Catching Australia is not mission impossible. Australia is not a world beater. Hong Kong and Singapore, with no natural resources but freer economies, are richer than Australia and out-pacing it.

I do not believe John Key wants to lead a 'do nothing' government. But it must inevitably feel constrained by the limitations MMP imposes on its ability to implement necessary reforms.

The MMP referendum is arguably the most important event in this year's political calendar. The big welfare states of Europe with proportional representation systems are in crisis.

New Zealand faces serious economic risks. Given its high external debt levels and battered public finances, financial turmoil in Europe (or China) could easily drive it on to the rocks.

There is little evidence that the necessary shift of resources from the non-tradeable to the tradeable sector of the economy is underway. If the recovery continues, the problem of unbalanced growth could recur.

We must hope that the government, and voters at large, have the wisdom and courage to confront these challenges effectively.

Roger Kerr is the executive director of the New Zealand Business Roundtable. Check out his blog on [www.nzbr.org.nz](http://www.nzbr.org.nz)