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Jobs Summit a Platform for Progress

Now that the dust has settled on the Jobs Summit, how might we put it in perspective?

In the lead-up to the Summit there were some predictable outbursts.

Veteran anti-globalisation campaigner Jane Kelsey hyperventilated. She saw the Summit as “a Trojan horse for the business sector” and likened it to the 1984 economic summit which was apparently “a carefully orchestrated piece of pageantry chaired by Ron Trotter” (actually David Lange – academics should get their facts right).

Professor Kelsey should calm down and watch *Slumdog Millionaire*. It is a rags to riches story of entrepreneurship in the new India, the product of sweeping moves to cut taxes, liberalise trade and deregulate business.

India needs to go further to lift up more of its poor, and it is unlikely to abandon globalisation any time soon.

Former Waikato University vice-chancellor Bryan Gould intoned that the Treasury and Reserve Bank should “forsake ideological purity” and opt for an Obama-style fiscal stimulus package.

Mercifully, there were no echoes of these themes at the Summit.

And interestingly, even though the election only four months ago was largely about economic directions, no one argued that the government was heading in the wrong direction with its economic policies.

Opinion polls also suggest a majority of the public supports its return to more conventional and less interventionist economic policies.

There were no calls for more fiscal stimulus. Participants seemingly understood that the existing stimulus is large and that any further boost

could put our credit rating at risk. This would raise the cost of borrowing for all New Zealand firms and households.

Moreover, under New Zealand's floating exchange rate regime, monetary policy is critical for sustaining domestic spending and incomes, whereas increased government spending would largely spill over into imports and increase the deficit in the current account of the balance of payments.

Business representatives did not call for handouts or tax concessions. Reductions in top effective marginal income tax rates would do more to stimulate investment, output and employment.

There was a big focus on regulation, ranging from pleas to remove red tape to calls for not introducing climate change measures until an economic recovery is well in train.

Strikingly, for what purported to be a jobs summit, discussion of job-destroying labour market regulation was off-limits, presumably in deference to union participants.

If they saw nothing wrong with present arrangements, why were they afraid about defending them?

Australians present were heard to wonder at the Kiwi aversion to open debate.

Fortunately, the government has signalled further moves on employment law.

None of the 20 main ideas that came out of the Summit were potential game-changers in terms of the government's goals of raising productivity and economic growth rates to reach Australian income levels.

Cutting the government spending share of the economy, strengthening our regulatory and fiscal constitutions, refocusing local government on core public good functions, putting central and local government commercial activities into the private sector, addressing Auckland governance, port rationalisation, education and welfare reform are among the many more important policies for major economic improvement.

Two ideas that featured in media coverage were a union proposal for a 9-day working fortnight and a joint government-banking sector fund to assist distressed companies.

If the recession deepens, it may well make sense for some firms to reduce working hours to preserve jobs. But other options are productivity improvements, reduced wages, and other changes to working conditions.

Individual firms and their employees are best placed to work out what adjustments suit them best, and the case for government intervention beyond training programmes seems dubious.

Moreover, the overriding imperative at present is to reduce our vulnerability to external funding constraints. The falling exchange rate is telling us that the economy needs to expand export and import-substituting activities overall through increased competitiveness. It makes no sense to assume that every industry contracts.

It may also be wise to make some contingency plans for further government action if economic conditions worsen dramatically. A joint government-private sector fund may have merit in placing decisions at arm's length from politics.

But outside the banking sector, where risks to the financial system as a whole may be involved, only very exceptional circumstances could justify taxpayer support for distressed firms, and great care would need to be taken to avoid prejudicing the interests of other suppliers of capital.

Some of the other ideas were a product of do-it-yourself economics rather than informed analysis.

A wag might suggest that the prime minister's idea of a national cycleway could be based on sections of the nationalised rail network – along the lines of the Central Otago Rail Trail – to save the country millions of dollars of financial losses on the business.

Politically, the Summit can be seen as an extension of the government's moves to have a relationship with the Maori Party and a dialogue with the Greens, and many other inclusive initiatives.

This is a far cry from the tribal 'We won, you lost. Eat that!' style of government of recent years and augurs well for a better consensus on national directions.

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