

TE PAPA TREATY DEBATES

MAORI, BUSINESS AND THE ECONOMY

ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE

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Peter Fraser, a young Maori economist, gave a talk in 2001 to students of entrepreneurship at Te Wananga o Raukawa, the Maori University in Otaki. He began as follows:

I want to tell you about a Pakeha. He's dead now, but given that he was around about 225 years ago that's hardly surprising. The man's name was Adam Smith, which was a common name that hid a rather uncommon vision. Smith argued that if people are allowed to do what they think is best for themselves, and so long as the costs and rewards of their decisions are apparent to them, then those decisions will not only result in what's best for themselves but be good for the rest of society as well ... At the heart of Smith's argument is the idea that self interest – not selfishness, mind – can be harnessed as a positive social force and the best way to do so is through a market.

Not surprisingly, Peter said, this simple but important insight quickly rang bells with his students.

Unfortunately for Maori and for all New Zealanders, our history has been characterised by a continuing search for government-led 'we know best' solutions for practically every perceived social and economic problem.

In the case of Maori, even some of the earliest and most well-intentioned government strategies for lifting the living standards of Maori failed for this very reason: they did not enable them to decide for themselves what would be in their best interests.

A good example was a project led by the Department of Native Affairs in 1936 to settle Maori families on farms to assure them a "reasonable standard of living". While no doubt the move met with some success, in many cases the farm's income was paid to the department who then paid the settlers a weekly wage. Thus any incentive for the settlers to improve the productive capability of the land was removed. As historian Michael Bassett wrote in *The State in New Zealand 1840 – 1984*:

... a combination of state paternalism and the fact that the farms' principal asset, the land itself, could not be traded, meant that options for Maori were often closed off. The plentiful gorse and a generally unkempt appearance of some Maori properties had more to do with government policy than any intrinsic inability of Maori to farm.

Expanding governments down the years have experimented with many such projects, generally in the belief that just a bit more intervention and a bit more public spending will solve whatever the problem might be.

However, here and around the world there has been growing disenchantment with politics and big-government solutions. We need governments to do things that only governments can do – like ensuring the provision of public goods such as defence and policing, setting the rules of the game for private enterprise, and providing a strong welfare safety net – but many economic and social problems are just not amenable to political solutions.

It is no accident that one of the most positive recent periods for Maori – the Maori cultural renaissance, the exciting developments in Maori education and the rise of Maori commercial enterprises – all began in the freer economic environment that followed the economic reforms of the mid-1980s and early 1990s.

Following those reforms productivity improved dramatically, unemployment dropped sharply, and, as the labour market tightened, real wages grew and employment conditions improved. The Maori unemployment rate, which stood at 24 percent of the labour force in 1991, has fallen to around 8 percent – a figure, incidentally, that is still far too high at almost double the national average.

Regrettably, this decade has not seen a continuation of efforts to make the economy more competitive and productive, unlike in Australia where policy directions have been more consistent. Indeed, many changes that focused on income redistribution rather than wealth creation have undermined the economic framework.

In particular, excessive government spending, taxation and regulation have contributed to a slump in productivity growth and to the onset of recession early last year, well before the global financial crisis hit New Zealand. The present economic environment is extremely tough for business, unemployment is set to rise, and the new government will face at least a

couple of years of difficult challenges before we can hope to see the economy move on to a more promising path again.

Nevertheless, the present crisis will pass, and it will pass faster if the government adopts sound, medium-term economic policies rather than short-term, pump-priming fixes. There is no reason why its goal of raising New Zealand wages and other incomes to Australian levels by 2025 can't be achieved, but it will take sustained economic management of the highest quality to do so.

Over the past 25 years or so, economic research has pointed increasingly to the role of sound institutions and policies in determining the prosperity of nations. They are far more important than factors such as natural resources, population size and distance from markets.

I should explain that by institutions, economists mean both formal rules (such as constitutions, democratic systems, the rule of law and property rights) and informal rules (including social and cultural norms such as tikanga). Both sets of rules create incentives that shape behaviour and expectations for better or worse.

If the institutional and policy environment is sub-standard, economic performance will be substandard. No amount of individual effort and enterprise will compensate.

The environment needed for prosperity is one that facilitates economic freedom and allows entrepreneurship to flourish. Entrepreneurs are among society's most important wealth creators and entrepreneurship is a feature of all successful cultures and nations. The story of how Maori quickly adopted the skills, technology and connections with external markets that the early settlers brought with them is well known.

Some recent research suggests that, as a percentage of the working age population, more Maori are starting new businesses than non-Maori. Maori achievement extends to the highest levels of business and the professions. Two of the six chairmen of the Business Roundtable – Ralph Norris and Rob McLeod – are Maori.

The fact that more talent and energy in Maoridom is being directed toward business and the private sector and less toward politics is a healthy development, in my view.

As a political minority, Maori are inherently disadvantaged in the game of politics. Politics is about numbers and voting power. It often amounts to the so-called tyranny of the majority, even though minorities may extract some special favours from the majority. Those who do best in a politicised environment are usually people who are better off, articulate and organised, not the most deserving.

When you think about it, there are really only three ways that people can get what they want in life: through cooperative efforts in families, clubs and voluntary associations; through impersonal transactions in the marketplace; and through politics. Of these, politics is the most complex, uncertain and often costly route. Over the years Maori have had plenty of reasons to distrust the political process and governments. Arguably, they would be better off pursuing more of their interests directly, whether through cooperation with people they know or in the market, rather than through the political process.

The business sector also often finds itself in a minority position when it comes to politics. Business has little voting power. It is thus no accident that there has been an alignment of business and Maori views on a range of public policy issues. Common themes have been the protection of the rule of law, respect for property rights, and the dismantling of state monopolies in favour of individual choice and competition. The foreshore and seabed debate is fundamentally a property rights issue; the Business Roundtable and many Maori took essentially the same position, namely that the validity of claims should be a matter for the courts to determine, at least in the first instance.

Another point to make is that politics is mainly about wealth redistribution; it is not about wealth creation, which is largely the outcome of the productive efforts of private firms and individuals. Redistribution of the economic pie is seldom a route to prosperity for any group.

This distinction is important in understanding the economic role of Treaty settlements. Often government ministers have created confusion and false expectations on this score. Doug Graham was one who used to talk about settlements creating an 'economic base' for Maori development. While settlements are obviously of some material benefit, as well as an acknowledgement of past wrongs, this proposition is largely mistaken.

Consider a little basic arithmetic. By far the largest settlement to date is the fisheries settlement. The last estimate of its value that I saw was some \$800 million. If it were distributed equally to all Maori, the sum involved would be around \$2,000 a head. Carefully invested, this might generate an annual income after tax of perhaps \$80 a year. Compared with even a low wage income, the benefit is clearly very small.

This is not to detract in any way from the Treaty settlement process. Treaty settlements are essentially about justice – an attempt to right the worst of past wrongs without creating new ones, and to avoid grievances stretching on interminably. Settlements involve mana and spiritual matters as well as claims to resources, but in economic terms they are about redistribution, not wealth creation. The two should not be confused.

In terms of wealth creation – raising living standards – what matters for Maori going forward are the same things that matter for the rest of the community: a strong economy, plenty of jobs, a high quality education system, less welfare dependency and so forth. This was essentially the conclusion of the Hui Taumata that Rob McLeod and I both attended in 2005. The three background papers for the Hui focused on developing people, enterprise and assets and it is worth revisiting the themes of each of these briefly.

The paper *Developing People* noted that:

[B]y far the biggest earner for Maori, and the biggest contribution Maori can make to New Zealand's economy, [arises from] participation in the labour market.

It also said:

Education and labour market outcomes are the two biggest determinants of collective Maori well-being.

I endorse both those statements. Especially for those with low skills, getting a first job, even at a low wage, is enormously important as a pathway to gaining experience, work habits and higher skills. A great deal of human capital – research suggests as much as half on average – is acquired ‘on the job’ and outside the formal education system. It follows that the removal of obstacles to employment, such as ill-justified regulations governing wages and working conditions, should be a priority for Maori and non-Maori alike.

Remember too that many successful entrepreneurs are not highly qualified academically. Attributes like energy, enthusiasm, hard work, tenacity, people skills, intuition, experience and an ability to bounce back from failure are often more important than formal qualifications.

On education, a key point is that the education system has not served *rangatahi* (young people) well – Maori continue to be part of the ‘long tail’ of underachievers. Could it be that despite our educators’ dogged belief in a one-size-fits-all state system, parents might have a better idea of what would work best for their child?

I am reminded of a story told by British educationist Melanie Phillips in her book *The Strange Death of Liberal England*. She describes an encounter with a young West Indian community worker. He was angrily denouncing a system that was effectively denying young black people like himself the teaching of basic subjects that they needed to make their way in the world, all in the name of “some white middle-class fantasy of equality that was actually going to keep them trapped in disadvantage”.

“They teach them all these things in private schools,” he said; “that’s why those children go on to run everything. So why aren’t they teaching them to us? “

Phillips goes on to explain that unlike white liberals, whom he despised, the young man wasn’t asking his council for more money to spend on schools; instead what he wanted was for West Indian children and their families to have the choice to go to the schools that would best equip them for life, and he protested bitterly against the Labour council for blocking the planning permission to enable this to happen.

Like all parents, Maori parents should have more autonomy (tino rangatiratanga) and choice over where and how their children are educated. Some would choose general government schools, others independent schools, others schools that emphasise a Maori style of education and te reo. Access would be available to each school type on equal terms with funding matching enrolments. Maori should not have to engage in endless political lobbying in Wellington to achieve the educational opportunities (in the curriculum and other areas) they desire for their children.

The Hui's *Developing Enterprise* paper affirmed that Maori have abundant entrepreneurial attributes and achievements. It noted that Maori intellectual property may offer some commercial opportunities but that outside New Zealand "the opportunities for enterprise based entirely on Maori identity may prove over time to be limited in scope."

I agree with these perspectives. Most Maori enterprises will not be culturally based. To be sure, in industries like tourism and entertainment there are valuable Maori assets. But by and large, business is the same the world over. Not too much should be made of 'the Maori way of doing business' and Maori entrepreneurs should seek mentors and networks wherever they can find them, regardless of ethnic identity.

The *Developing Assets* paper for the Hui suggested that human capital was more important for Maori than other assets (including Treaty settlements), as I argued earlier. It bravely ventured into sensitive territory by asking whether all Maori assets "should be retained at nearly all costs, or simply for historic or cultural purposes." It also raised the vexed Maori land issue, asking whether scattered land assets should be amalgamated to provide more viable business opportunities.

These are important questions. In respect of Treaty settlements, perhaps a political case can be made for non-alienation, at least for a period. Some fear that if specific assets are alienated, and especially if they are exchanged for other assets that lose value because they are poorly

managed, the settlement process will not be 'full and final' and aggrieved 'beneficiaries' will lodge new claims for redress. But the economic case for such an approach is weak: the value of assets is typically increased by tradability; it is not efficient to 'freeze' a particular pattern of asset holdings; and from an investor viewpoint, risk is reduced by asset diversification. Moreover, land and other resources can always be purchased or repurchased on the open market.

In respect of land, refusal to front up to these difficult questions does nothing to advance Maori interests. One possible way forward in some situations might be to incorporate a group of land holdings and issue tradable shares to those with land titles. Perhaps a well-qualified task force or commission could be set up to review the problem comprehensively and advise on solutions.

The paper *Developing Assets* also poses some important questions about governance of Maori assets. By and large, governance arrangements that are as close as possible to those that have evolved in open and competitive markets seem most likely to be successful. Historical experience around the world suggests that tribal structures tend to diminish in importance in the longer run, unless they are artificially preserved by policies that fossilise existing arrangements.

The themes of the Hui seem to me to have continued to play out in recent years. The rise of the Maori Party and its association with National in government may be a further signal of a shift of opinion away from redistribution to an emphasis on enterprise, education and jobs.

The key substantive elements of the National and Maori Party Confidence and Supply Agreement were agreements to put on hold the issue of the Maori seats and to revisit the foreshore and seabed issue. I have no trouble with either. I think the Maori seats should go eventually, but not in a hurry; it would be better to aim for more acquiescence in such a step with the winding-down of the Treaty settlement process and Maori social and economic advancement. And a fairer settlement of foreshore and seabed issues may well be possible.

In addition, it might be hoped that the Maori Party can help chart the way forward for New Zealand as a whole in areas such as education and welfare. I hope Pita Sharples will advance the cause of greater school autonomy and choice, perhaps through the inter-party working group that is to be set up. Tariana Turia, whose instincts about the corrosive effect of welfare on Maori seem to echo those of Sir Apirana Ngata, might help pioneer reforms in this area, particularly when the economy picks up.

For its part, the Business Roundtable has been proceeding with its project on Maori economic and social development, and last year published papers by Philip Joseph on the Maori seats, Frederic Sautet on iwi, and John Luxton on Te Puni Kokiri. These follow earlier papers by Ken Minogue and Richard Epstein on the Treaty, and of course a great deal of general work on economic growth, employment, education and welfare. We also had Sir Howard Morrison to a meeting last year to discuss his health project, and others such as Tariana Turia, Shane Jones and Mike Pohio of Tainui have addressed meetings or events.

In summary, I believe policies, opinion and trends relating to Maori and the economy have been going broadly in the right directions, although there have been diversions and the period immediately ahead will be difficult.

The deadline for lodging Treaty claims has passed, and we must hope that outstanding genuine ones will be settled as generously and expeditiously as possible in the next few years.

Acceptance of the themes of the Hui Taumata seems to be spreading. I am convinced that a retreat from politics and state paternalism and a shift towards greater reliance on private enterprise and civil society, and towards greater freedom, choice and individual responsibility, is the way forward for Maori and New Zealand society in general.

In just the last 20 years we have been privileged to witness two of the greatest triumphs of indigenous peoples: the stunning achievement of Nelson Mandela with the end of apartheid in South Africa; and last week the inauguration of Barack Obama, America's first African-American president – not because of any affirmative action programme but because

he succeeded in perhaps the toughest competitive democratic process in the world.

Politicians, opinion leaders and business people – Maori and Pakeha – must keep their nerve in the deteriorating economic climate. While seeking to minimise the fall-out, our leaders must keep focused on the time-tested lessons about the institutions, policies and business practices that will help the whole community, including Maori, emerge from the recession and rebuild prosperity.

With this in mind I'd like to close with a message of support sent to me a few years ago by Mahanga Maru, who was then president of Te Awe, a Maori business network to which I belonged. In the message he speaks of Maori leaders' abilities to withstand and sustain adversity. It reads:

Ko rātou ngā toka tū moana.
Ka ākina rātou e ngā ngaru o te moana.
Ka ākina e te tai, ka ākina e ngā hau.
Engari ahakoa pēhea ka tū tonu, ka tū tonu, ka tū tonu.

***They are rocks standing in the sea.
They are bashed by the waves of the ocean.
They are dashed by the tide.
They are struck by the winds.
But no matter what hits them, they stand and they stand.***