

TE PAPA TREATY DEBATES

MAORI IN THE NEW ZEALAND ECONOMY

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MAORI IN THE NEW ZEALAND ECONOMY

Ko Hikurangi te maunga
Ko Waiapu te awa
Ko Ngati Porou te iwi
Taku ingoa ko Rob McLeod
O te whanau a Rakairoa ki Harataunga
E mihi atu nei
Kia koutou
Tena koutou
Tena koutou
Kia ora tatou katoa

My topic tonight is the place of Maori in the NZ economy.

In a simple circular model of the economy, whanau supply their capital and labour to firms in exchange for income, which whanau use to buy goods and services from firms. I think our topic focuses on Maori participation on the supply side of the economy rather than as consumers. We should therefore examine Maori supply-side participation first as individuals and whanau, and secondly via commercial firms.

Maori currently comprise 15% of the NZ population, and 10% of the employed workforce. The current Maori median age is 23 (meaning half the Maori population is below this age) compared with 36.4, NZ wide. Fertility rates are also higher for Maori than non Maori.

These few statistics are at the heart of my perspective on the place of Maori in the NZ economy.

The current and increasing relative population of Maori mean that Maori are very significant to the NZ economy, both today and tomorrow. Furthermore, the economic and social wellbeing of Maori and non-Maori are interdependent. An economically affluent Maori people will enhance

the economic prospects of non-Maori. Conversely, an under-performing Maori population will hinder the progress of non-Maori. These demographics are having similar impact on Maori political influence, as was seen in the last election.

Just as Maori are important to the NZ economy, so is the NZ economy important to Maori. It provides the only road for the majority of Maori to a preferred standard of living. Maori are free to choose the standard of living they desire, but the only option for the majority of Maori to achieve it is to command a matching level of income. Inevitably, some people take issue with this, arguing that there are things much more important than money. That's true, but like it or not, money is required to give the average Maori person or whanau access to necessities, let alone luxuries.

The focus on income trips a series of further dominos, first, that for the majority of Maori, as with any other ethnic group, the key source of income is the wage: secondly, that the quantum and security of that wage depends on skill; and thirdly, that skill depends on off and on-job education and training. The asset at the centre of all this is human capital, and the economic return on this asset is dependent on the level of investment made in it.

Comparatively, the importance of labour income to the Maori economy will always dwarf the relative importance of capital income, namely profits, dividends, rents, royalties and interest. Average annual investment income is c\$700 for Maori and c\$7,000 NZ wide. The average person does not inherit or win significant capital, and consumes her income over her lifetime leaving no endowment at death. Human capital is the most important economic asset that Maori own: which is why efforts to assist Maori economic development are best aimed at expanding educational and training opportunities.

Given this, let's take a closer look at Maori participation in the labour market. At 9/08, the Maori participation rate was 67.8% up from 61.9% at 9/07. The unemployment rate is currently 7.7%, compared with 3.75% for

non-Maori, which has trended down markedly over the last decade. The average Maori wage for all persons aged 15 years and over at 6/2008 was \$20,904, compared with \$23,508 for non-Maori. The average wage gap for those in employment is smaller because a higher proportion of Maori than non-Maori are not in paid employment.

| Te Papa | Maori | Non-Maori | Total | Source |
|--------------------------------|--------------|------------------|--------------|---------------|
| Participation-9/2008 | | | | |
| Not in labour force | 107,500 | 926,500 | 1,034,000 | HLFS |
| In labour force | 226,000 | 2,040,000 | 2,266,000 | HLFS |
| Total | 333,500 | 2,966,500 | 3,300,000 | HLFS |
| Participation rate | 67.77% | 68.77% | 68.67% | |
| Employment-9/2008 | | | | |
| Employed | 208,600 | 1,963,400 | 2,172,000 | HLFS |
| Unemployed | 17,400 | 76,600 | 94,000 | HLFS |
| Total | 226,000 | 2,040,000 | 2,266,000 | HLFS |
| %age Unemployed | 7.70% | 3.75% | 4.15% | |
| Ratio to Maori | | 205.04% | | |
| Average Wages-6/2008 | | | | |
| Wages all persons ¹ | 20,904 | 23,508 | 23,348 | NZIS |
| Ratio to Maori | | 112.46% | | |
| Wages persons employed | 33,592 | 35,939 | 35,828 | NZIS |
| Ratio to Maori ² | | 106.99% | | |

1 Average wage and salary for all persons (that is, including those not in paid employment) aged 15 years and over. Excludes income from self-employment, investment and government transfers.

2 Average wage and salary for all persons aged 15 years and over who are in paid employment.

As stated, employment generates a number of material benefits above the wage. These include skill development in the job, role modelling to the whanau, the sense of self-worth and pride, and avoiding the opportunity cost of unemployment.

In order to make the Maori rate of unemployment the same as non-Maori, around 9,000 more Maori would need to be employed, which at the average Maori wage of around \$21,000 gives aggregated annual wages of \$186m. So what would the value be of human capital returning \$186m pa over say 20+ years be? Dividing through by say a risky internal rate of

return of 10%, gives an approximate market value of \$1.86 billion. Closing the gap in unemployment therefore is likely to be worth significantly more than total payouts under the treaty to date. And to this we could also add the capital value of closing the wage gap across all Maori workers.

I would add a word about minimum wage rates and pro-worker regulations. The assumption that unemployment is unaffected by minimum wage rates is wrong. Fewer jobs are offered at higher prices than lower prices. Minimum wages set above market clearing prices will increase unemployment for marginal workers, many of whom are Maori.

Given the central importance of labour performance, let's take a closer look at educational participation. Fortunately, there are some good trends here, but stubborn gaps with the non-Maori population remain.

According to the 2006-2007 Nga Haeata Matauranga report from the Ministry of Education, the 2006 pre-school attendance rates for Maori was 90%, up from 85% in 2000: compared with 96% for non-Maori.

In 2006, approximately 22% of students in the compulsory sector were Maori, although a third of Maori kids are in decile 1 and 2 schools. In 2006, when the minimum leaving age was 16, 60% of voluntary Maori students stayed compared with 86% of non-Maori. In 2006, 14.8% of Maori school leavers qualified to enter University, up from 7.4% in 2001: compared with 36.3% of all NZ students.

Interestingly, in 2006/7, the percentage of Maori in formal tertiary study was 20.3% compared to 13.7% NZ wide. In 2004, 51% of Maori school leavers enrolled for tertiary education, up from 40% in 2001. Maori are still less likely to enrol in degree courses and are skewed towards Wananga and Polytechs. Unfortunately, there was a decrease in tertiary participation by Maori of 5.4% from 2005 to 2006, most notably at Wananga. In 2006, 39% of Maori aged 25 to 64 had no educational qualifications compared with 22% NZ wide. In 2006, 8% of this Maori cohort held a bachelor's degree (20% NZ wide), up from 5% in 2000 (13% NZ wide).

Unsurprisingly, unemployment rates are much lower for Maori with formal qualifications, and their wage rates are much higher.

Capital Markets

Let's take a look now at capital market participation. As mentioned, average annual investment income for Maori in the year to 6/2008 was \$676, compared with \$6,838 NZ wide. Self employment income for Maori was \$2,704 compared with \$14,153.

| Te Papa | Maori | Non-Maori | Euro | Total | Source |
|-------------------------|--------------|------------------|-------------|--------------|---------------|
| Self employment -6/2008 | 2,704 | 5417 | 6,032 | 14,153 | NZIS |
| Investment -6/2008 | 676 | 2,886 | 3,276 | 6,838 | NZIS |
| Total | 3,380 | 8,303 | 9,308 | 20,991 | |
| Ratio to Maori | | 245.65% | 275.38% | | |

Statistics New Zealand in a Report based on the Survey of Family, Income and Employment (SoFIE) conducted in the 2003/04 year stated that the average net asset position of Maori was \$65,800 (median \$18,000) and \$159,600 (median \$69,800) NZ wide.

Table 1. Summary of results

| | Total (million) \$ | Mean \$ | Median \$ | Mean / Median ratio |
|------------------------------|-------------------------------|--------------------|----------------------|--------------------------------|
| Net worth | 467,668 | 159,600 | 69,800 | 2.3 |
| Total assets ² | 559,414 | 191,000 | 106,100 | 1.8 |
| Total liabilities | 91,726 | 31,300 | 2,400 | 13.0 |
| Debt ratio (per \$100 asset) | | 16.4 | | |

Table 4 Distribution of population and total net worth, mean and median, by major ethnic group*

| | Percentage share in | | Net worth | | |
|-----------------|---------------------|-----------------|------------|--------------|------------------------|
| | population | total net worth | Mean \$ | Median \$ | Mean / Median ratio |
| European | 83.0 | 92.7 | 178,400 | 86,900 | 2.1 |
| Māori | 10.4 | 4.3 | 65,800 | 18,000 | 3.6 |
| Pacific Peoples | 4.9 | 1.3 | 41,400 | 6,700 | 6.2 |
| Asian | 6.4 | 3.8 | 95,600 | 21,000 | 4.6 |
| Other | 1.9 | 1.2 | 100,200 | 19,000 | 5.3 |

* The classification of ethnic group is based on total responses to the question on ethnicity and hence adds up to more than 100 percent

Maori Firms

Now turning to the performance of Maori Firms, TPK has published a table of commercial assets held by Maori Firms, which totalled \$16.4b in 2005/6, up from around \$9b in 2001. In 2005/06, Maori commercial assets amounted to 1.5% of the reported value of the total NZ business sector, an increase from 1.2% in 2001. Maori investment is proportionately much higher in primary industries compared with total NZ investment. Around half the assets of Maori commercial firms are in the primary sector. The number of Maori employers increased by 28% and the number of Maori self-employed (without employees) increased by 21% between 2001 and 2006 compared with 8.8% for non-Maori. Income levels of self employed Maori also significantly improved over this period.

**TABLE 1: MĀORI COMMERCIAL INFORMATION
FOR 2001 AND 2005/06.**

| | Total Assets (\$ m) | | Increase in Assets 2001 – 2005/06 | |
|------------------------------|------------------------|---------------|--------------------------------------|----------------|
| | 2001 | 2005/06 | \$ m | Percent (%) |
| Māori Trusts | 1,552 | 3,177 | 1,625 | 105 |
| Māori Trustee Land Assets | 177 | 725 | 548 | 310 |
| Iwi Treaty Settlements | 86* | 188* | 102 | 119 |
| Māori Trust Boards | 145 | 355 | 210 | 145 |
| Māori Businesses | 5,708 | 10,460 | 4,752 | 83 |
| Other** | 1,354 | 1,545 | 191 | 14 |
| Total Assets | 8,992 | 16,450 | 7,458 | 83 |

*Notes: * Excludes \$170 million each for Waikato-Tainui Raupatu settled in 1994/95, Ngāi Tahu settled in 1996/97, and Māori Fisheries Settlement settled in 1992/93. These are incorporated in the net assets under Other. **See the section on Asset Classes for a definition of Other.*

TABLE 2: MĀORI ASSETS AND CAPITAL INVESTMENT AS AT 2005/06.*

| | Primary (\$ m) | Secondary (\$ m) | Tertiary (\$ m) | Total Assets (\$ m) |
|--|-------------------|---------------------|--------------------|------------------------|
| Māori Trusts | 3,177 | | | 3,177 |
| Māori Trustee Land Assets | 725 | | | 725 |
| Iwi Treaty Settlements | | | 188 | 188 |
| Māori Trust Boards | 355 | | | 355 |
| Māori Businesses | 3,688 | 1,271 | 5,501 | 10,460 |
| Other | 568 | | 977 | 1,545 |
| Total Assets | 8,513 | 1,271 | 6,666 | 16,450 |
| <i>Māori Proportions 2005/06**</i> | 52% | 8% | 40% | 100% |
| <i>Total New Zealand proportions 2005/06</i> | 10% | 9% | 81% | 100% |

*Notes: *Excludes Government administration and defence. ** Investment in each industry expressed as a percentage of Total Assets.*

Overall Observations, Conclusions and Recommendations

I now come to some concluding observations.

Maori participation in the NZ economy is improving in most areas when measured against the past and against non-Maori, which is great. I expect this trend to continue, particularly given the relative youthfulness of the Maori population, although in the short run, things will worsen in sympathy with the serious global meltdown which will remove jobs from the lower rungs of the job ladder. The other dark cloud that has hovered for too long, albeit slowly receding, is the performance gaps with non-Maori in income, employment, health, education and crime. Closing these gaps requires a better understanding of their causes and effects, and their inter-relationships. For example, lower Maori income both contributes to and results from lower employment. Lower employment contributes to and results from criminal activity. It is also likely that the income gap partly reflects the younger age profile of Maori.

In evaluating the economic performance of Maori in the economy, we tend to look at the average or median performer, whereas I am primarily interested lifting the performance of those at the bottom end to an “acceptable” level. Two questions that arise with such an approach are:

- What is an acceptable minimum level?
- Is GDP or income per capita a reliable proxy for the personal preferences of Maori within this group?

The policies or remedies that lift people from an unacceptable performance segment are not in my opinion as difficult as achieving compliance with those policies by relevant stakeholders. Most of my policy injunctions are rhetorical in nature, like the injunction to parents to do the right thing by their children; or the injunction to schools to do the right thing by their Maori students. Having said that however, there are challenges to achieving community consensus about appropriate policies, such as the importance of income, meaning that achieving consensus on strategy remains part of the problem. The more difficult challenge is to modify Maori human behaviour over a long period of time via influential institutions, which I now turn to.

I believe there are a few key institutions that affect the Maori state of affairs, for better or worse. Much could be said about each institution, but I need to be brief. The first and most important institution is the whanau, which sets the initial life-rudder for Maori children in terms of their aspirations, culture, and attitudes. The optimal whanau unit is the two parent nuclear family, complemented by supportive layers of extended relatives (grandparents and cousins). The adults in this fraternity shape the pathways of its children through role modelling and counselling. There is choice in this role, and parents are responsible and accountable for the outcomes, good and bad.

The next most intimate and pervasive institution that affects Maori in terms of their aspirations, culture, and attitudes are the schools, particularly the pre-compulsory and compulsory sectors. The teachers have a role beyond

imparting technical education, through mentoring, counselling and role-modelling Maori children and to some extent, their parents.

I would add most religions and churches as an important institutional category that can also have a positive impact on Maori in terms of their aspirations, culture, and attitudes.

The government must be added to the list of influential institutions, given its pervasive impact. I believe in the safety net function of government to assist the infirm and needy. I believe that an effective government should provide only those essential public goods that the community would not optimally provide for itself and that government should not compete with or crowd out the private initiatives and efforts of Maori individuals and whanau via taxation, regulation or monopoly.

Employers (or Firms) should also be added to the list. I am a supporter of affirmative action in the private sector, and would direct interested persons on the question to a relevant Paper delivered by Professor Richard Epstein which can be found on the NZBR website.

The final institution I will mention are iwi organisations as the key repository of treaty settlements and tribal mandates. I analogise these organisations to a tree that must bear fruit for its constituents. To extend the analogy, there are two trees within most iwi organisations producing two kinds of fruit, one being the commercial tree producing commercial profits, and the second being the social tree that produces non-commercial benefits, such as tribal representation (mandate). The big questions which arise for decision by iwi are (a) the design of appropriate parliamentary, governance and executive structures, (b) what commercial risks to bear on the commercial tree and (c) the extent of annual distributions, their form (cash or kind), and to which constituents. The latter question links to this topic in that iwi should embrace its future by investing in educational scholarships for its children.

Maori have a positive future based on their demographics, which bodes well for all NZ'ers.

Thank you for listening.

Tena kotou katoa.