

**EMBARGOED UNTIL 7.30 PM FRIDAY 17 MARCH 2000**

**ACT NEW ZEALAND ANNUAL CONFERENCE**

**FAIRNESS**

<b>DOUGLAS MYERS CHAIRMAN LION NATHAN LIMITED MEMBER NEW ZEALAND BUSINESS ROUNDTABLE</b>	<b>AUCKLAND 17 MARCH 2000</b>
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## FAIRNESS

As I reflect on the current political environment in New Zealand, I am reminded of the halcyon days of the Soviet Union. At that time, a Russian lady wanted to buy a new car. She went to the dealer, specified the car she desired and inquired about the delivery date. "Tuesday", said the dealer. "Morning or afternoon?", asked the lady. "What difference does it make?", inquired the dealer, "It's ten years from now." "Well", said the lady, "The plumber's coming that morning."

New Zealand never took socialism quite that far, but the legacy of 60 years of socialist thinking still weighs heavily on our culture and politics. Many members of the present government come from the hard left; several even belonged to communist parties. Margaret Wilson's belief that the relationship between employer and employee is one of inequality, which requires a collectivist response, could have been borrowed from Karl Marx. The government seems intent on travelling back down the command-and-control path that led to inefficiency, impoverishment and injustice in so many countries, and to New Zealand's economic slide.

Last year the Labour Party campaigned on a moderate platform, giving the impression that it accepted the realities of contemporary economic life and would make only minor changes to recent policies, just as Tony Blair's Labour government in Britain has accepted most of the legacy of previous Conservative governments and indeed extended it. In office, however, Labour and the Alliance have called a halt to economic reform and are unfolding a much more radical, backward-looking agenda, reminiscent of left-wing ideas of the 1960s and '70s. What they are trying to do can genuinely be described as reactionary; they are putting New Zealand on a course that no other OECD country is following. It remains to be seen whether the electorate thinks this is the programme it voted for.

In opposition both the National and ACT parties clearly need to do some soul-searching. In the week before the election, the *Otago Daily Times* hit the right note in an editorial when it said:

... it would be a hard task to find a voter who could actually describe what National's policies for the next three years actually are, other than the tax cuts. National's planners chose as their election strategy the party's record in government, thus burdening Mrs Shipley not just with the responsibility for her brief and mixed term as prime minister, but for the whole of National's last three terms.

After its initial liberalising efforts of the early 1990s, National became lazy and smug. It stopped listening to the business community. It did little to educate the public about the challenges and opportunities of the international environment in which New Zealand has to operate. Buzz words like 'decent society', 'social capital' and the 'knowledge economy' substituted for policy substance. National's failure to maintain efforts to strengthen the economy, which fell back into recession, discredited the reform programme in the eyes of many. Sporadic initiatives to deliver real gains, like the ACC reforms, were tardy and half-hearted. National gave the country no reason to believe it would lead New Zealand into a brighter future.

ACT increased its share of the vote but only marginally. It, too, needs a new framework and vision. ACT's general philosophy is sound, but its core commitment to smaller, better government seemed to become blurred in the run-up to the election. Moreover, ACT's attachment to various forms of compulsion in social policy areas has compromised its commitment to individual freedom and choice. ACT should be, and be seen to be, above all else a party favouring freedom. As I will argue, ACT should campaign for freedom on grounds of fairness and wider opportunities for all – including the poorest – as well as enterprise and prosperity. It needs to translate these principles into a more coherent programme.

ACT needs to challenge the electorate. It must ask New Zealanders whether they really want to return to a nanny state and the mediocrity that goes with it, or whether they want the higher living standards and greater opportunities associated with economic and social freedom. Are voters more concerned with alleviating poverty or equalising incomes? Are they happy at the prospect that New Zealand's brightest and most energetic people will vote with their feet and seek more stimulating and rewarding

careers elsewhere? ACT must explain to voters why socialist dreams routinely turn into nightmares. The fact is that in the real world we have to cope with the frailties of human nature and the limitations of government. In this world ACT must spell out how we can achieve a more just society by embracing an open and competitive economy while protecting those who are genuinely needy.

Thus I come to my main theme which is fairness. Let me begin by quoting from a new version of the fable of the ant and the grasshopper, which I think encapsulates some of our national habits of mind rather well. In the original story, you will recall, the ant works hard in the summer heat, building his house and laying up supplies for the winter. The grasshopper thinks he's a fool and plays the summer away. Come winter, the ant is warm and well fed. The grasshopper has no food or shelter and so he perishes in the cold. Lindsay Perigo has recently updated the story as follows. In this version:

... the ant works hard in the withering heat all summer long, building his house and laying up supplies for the winter. The grasshopper thinks he's a fool and plays the summer away. Come the winter, the shivering grasshopper calls the *NZ Herald* and demands to know why the ant should be allowed to be warm and well fed while others are cold and starving. The Holmes Show provides graphic footage of the feverish grasshopper outside the comfortable home of the ant, who is seen feasting at his table. Retired trade unionists and current government employees, all from England, are outraged by the disparity, and set a new record for whining on Radio Pacific. A representative of the Grasshoppers' Right of Stagnation Society, GROSS, says the grasshopper is the victim of discrimination on the basis of effort, and demands that 'effortism' be outlawed forthwith.

Jane Kelsey writes in the *NZ Herald* that the ant has gotten rich off the back of the grasshopper, and calls for immediate action by the government to restore equity. The IRD confiscates the ant's home and gives it and the food therein to GROSS. The grasshoppers finish up the last bits of the ant's food just as the house starts to crumble around them since they don't know how to maintain it. Soon they are starving and shivering again. Winston Peters wakes up with a start and calls for a public inquiry. Richard Prebble says grasshoppers should be forced to build houses and save up food in the summer. Helen Clark, Linda Clark, Michael Cullen and Jim Anderton all promise to confiscate more ant houses and ant food for the grasshoppers in the future. They are voted into power by the retired

trade unionists and current government employees. The *NZ Herald* proclaims the beginning of a new era of fairness.

Twelve months later, everyone has died in the great New Zealand Famine of 2000.

Now I don't necessarily subscribe to all the sentiments in the modern fable, but the ruling ideas of fairness are ones that we need to reflect on. As New Zealanders we believe in fairness, in the idea of a 'fair go'. We are also attached to egalitarianism, in the sense of a classless society in which 'Jack is as good as his master'. Intellectuals and politicians, however, have distorted the traditional concepts of fairness and egalitarianism beyond recognition. One result of this process is the disastrous social outcomes suggested in the fable. But a deeper criticism is a moral one: it leads to policies and practices that have unjust outcomes.

A central focus of the political debate ahead should be on claims of fairness. The prime minister, Helen Clark, has stated her claim in the following terms:

"[I]n most parts of Auckland, house and rent prices have soared beyond the reasonable reach of working people. The Government's lack of a housing policy now adversely affects those who have cared for their State houses with pride over three or four decades ... [T]hose who live on national superannuation alone are finding life more and more of a struggle ... Youth unemployment is a genuine concern ... [T]he past few years have brought falling living standards ... Our party was founded on concepts of social justice and equality ... We believe that the State must act to correct the imbalances in our society, favouring the rich and powerful ... We know that if the market is left to sort matters out social injustice will be heightened ... The law of the unregulated market is, in the end, the law of the jungle ... There is an immense job of social reconstruction to be done – a job that can only begin when a Labour Government, committed to social change and equality, is elected.

Interestingly, this quotation is not from a speech by Helen Clark during last year's election campaign. It comes from her maiden speech in parliament in 1982. Believe it or not, the "law of the unregulated market" that she was describing was the high point of Muldoonism – which culminated that year in comprehensive wage and price controls – not the moves towards liberalisation of the past decade and a half. In her speech she

declared her opposition to the proposed free trade area with Australia which would mean, she said, "an execution date for our structure of import licensing and export incentives". Yet at the last election the Labour Party's criticism of the policies of the past 15 years was essentially the same – they were 'unfair'. It seems that social injustice predated the reforms of the Lange-Douglas government, instead of being caused by them as we are so often told, and that it is due both to liberal and illiberal policies. To put it mildly, all this seems rather incoherent.

Modern parties of the left often claim they have a monopoly of fairness, and this purported monopoly allows them to appeal to less well-off members of society. Parties like ACT are accused of being 'uncaring', and they tend to draw their support from better-off groups. Should ACT resign itself to being perceived in this way, and to this limited support base? My answer is emphatically 'no'. Supporters of a liberal economy and society must confront these perceptions head on, and challenge the parties that currently claim the high ground on issues of fairness and social disadvantage.

A starting point for such a challenge might be found in history. ACT is wrongly seen as a party of the right, and supporters of liberal policies are wrongly described as 'right wing'. Those who operate by labels find it hard to associate liberal views with concerns for the poor. Yet the tradition of political liberalism to which ACT is an heir originated with the political left. The liberals and radicals took their place on the left side of the chamber during the French Revolution. They opposed privilege: the statism, collectivism and hierarchical privileges of the *ancien regime*. This alignment persisted until the late nineteenth century; in Britain the mass of workers and even the early trade unions favoured the free competitive market as the best means of improving wages and working conditions. In the United States, the classical liberal party was the Democratic party, known in the nineteenth century as "the party of personal liberty". It championed the constitutional ideas of limited government and free trade.

The old order returned in the late nineteenth century with the rise of the socialist movement in Europe. There were similar developments in the Democratic party in the United States that ultimately led to the New Deal. Parties of the left came to be associated with ideas of collectivism, public ownership of firms, public provision of

services such as education, and redistribution. Ironically the socialist left shared many of these ideas with the New Right in Bismark's Germany. In both cases policy was based on protectionism, the welfare state and corporatism – a network of controls, cartels and privileges forged in a partnership between big government and favoured elements in business.

By the end of the twentieth century, socialism and collectivism had run their course in most countries, but the identities of alternative political currents had become hopelessly confused. A central feature of Roger Douglas's reforms was the rejection of privilege. He set about dismantling import licensing, farm subsidies and regulations that protected vested interests. He tried unsuccessfully to break down the privileges of trade unions and the state health and education monopolies. Yet these attempts to remove barriers, introduce competition and create greater equality of opportunity, particularly for the least privileged, were not recognised as typical policies of the left. The support of business organisations for dismantling corporatism was labelled New Right thinking.

This confusion between left and right labels persists today. An important task for ACT is to expose the fact that many of the new government's programmes are reactionary, not liberal, and that they are neither fair nor effective as approaches to social disadvantage. Rather, the policies are the phantoms of an archaic ideology, cloaked in new appellations that disguise their true purpose: the promulgation of privilege at the expense of freedom. A sustained effort is needed to show that many new government initiatives are not only detrimental to the general population, but are particularly unfair to the poor. Maori will be among the worst affected; they will become further entrenched in a culture of dependency.

To illustrate my argument, let me start with the proposed changes to the Employment Contracts Act 1991 (ECA). Unlike the British Labour Party, which accepted most of the Thatcher government's reforms of labour law – with the result that Britain probably has a freer labour market than New Zealand today – Labour in New Zealand is set on an ideological mission to turn the clock back. The proposed changes are very likely to

raise the costs and risks to firms of employing staff, reintroduce inefficient work practices and increase industrial disruption. But they are also fundamentally unfair because they constrain the freedom not just of firms but also of their staff to enter into the kind of contracts that suit them best. The true beneficiaries are unions; union privileges that were removed by the ECA are being restored. The losers are ordinary people.

Next, the government's action in increasing minimum wages is no way to help the poor. Only a fool or an intellectual could believe that wages can be increased by legislative fiat without causing losses to some members of the workforce. To assert the opposite merely begs the question as to why wages should not be raised further. In the paper presented to the cabinet, government officials advised that "The gains to some low-income earners will come at the cost of lost employment opportunities to others" – they suggested between 1300 and 5200 jobs were likely to go. This is likely to swamp any net increase in jobs from industry development handouts. They said that "Increases in the minimum wage may hinder the transition of more disadvantaged workers into jobs." They also pointed out that "As a tool for achieving income distribution objectives, increasing the minimum wage is at best a blunt instrument, and other instruments are available." Minimum wages are an unfair policy; they hurt the most marginal workers whose best chance is to get a foothold on the employment ladder. Why is the government ignoring the advice of its own advisers unless it wishes to pander to labour unions driven by the interests of those in work rather than the unemployed? For unions, the unemployed have always been the competition.

The government is restoring the state monopoly for ACC yet elsewhere it professes to be concerned about monopoly behaviour. Is this principle or politics? Like the ECA changes, the move seems to be a payoff for union support for the Labour Party. Certainly workers' interests don't enter into the picture: what's fair about being denied choice and being forced into a one-size-fits-all scheme? Why should workers want money that could be used to increase their wages spent on a less satisfactory insurance policy?

What about taxes? Many commentators have pointed out that for talented entrepreneurs the negative impact of the increase in the top personal tax rate will again swamp the effects of interventionist plans to stimulate entrepreneurial activities. The increase in the rate was justified as a means to fund additional social spending. This argument doesn't stack up. A decision to help those on low incomes is unrelated to how the transfers ought to be funded. If concerns about equity are motivated by compassion for the poor rather than envy of the rich, the best and fairest policy is to fund transfers through a single flat tax. Envy of high achievers is the only plausible motivation for a progressive tax scale. What is fair about a decision by a political majority to raise the tax rate on a minority?

What's more, it's hard to reconcile the government's argument on tax with its argument on tariffs. The Alliance has criticised the goods and services tax for being regressive. In fact it is roughly proportional, as over their lifetimes most people spend what they earn. By contrast, tariffs now fall mainly on textiles, clothing and footwear, and these account for a disproportionate share of the spending of low-income households. Labour and the Alliance want to freeze or raise tariffs and perpetuate a regressive tax. Is this fair?

Tariffs also increase the returns to the owners of protected firms or the wages of their employees at the expense of consumers at large. What's fair about this form of redistribution?

Consider industry policy. The government wants to go back to "assisting" firms through taxpayer subsidies. The main objection to this policy is that it is an absurd illusion that the economy can be hauled to higher levels of performance by foolish tinkering. But there is also a fairness aspect. By definition the government can't assist all firms, so it has to be selective. The old guard among New Zealand manufacturers who specialised in lobbying have already got their hands out. Some firms will be favoured while others will bear the costs through higher taxes and higher prices for resources. Where is the fairness in this? In agriculture, the government has scrapped the producer board reform team. It seems likely to favour the interests of those involved with the marketing monopolies at the expense of farmers and growers who

want choice and the interests of the wider community. Is this fair?

The government seems intent on regulating company takeovers. Incompetent chief executives should go down on their knees to give thanks, as such regulations make it more difficult for alternative management teams to take over poorly performing companies. But what is fair about protecting failed management at the expense of shareholders and other stakeholders? Why should a company's shareholders be denied the opportunity, which they have at present, to choose the takeover rules they want?

In the social services area, the government is clearly bent on shoring up the state monopolies in education and health. It is shutting down contracting arrangements with private health providers and abolishing the schemes that enable children from low-income families to attend independent schools. The government tells us that the latter undermine state education. But is education for the benefit of schools, teachers and teacher unions or for the benefit of children and parents? What is fair about trapping children in an underperforming school from which their families want them to escape? Freedom of choice is of greatest benefit to poor families. For many disadvantaged children, education is their one ticket out of poverty; if they miss that train, they risk missing everything.

The government is increasing the subsidisation of tertiary education by scrapping interest on loans while students are studying. Who benefits? Those engaged in tertiary education typically come from better-off families and go on to earn higher incomes in later life. One can make a case for targeted scholarships to students from low-income families, but universal student subsidies are a transfer from poor to rich. Is this a fair policy?

The previous government dropped the surcharge on New Zealand Superannuation and the present government is committed to retaining universal payments at an increased level. As a result middle- and lower-income earners are being taxed to fund the retirement income of millionaires. Is this the average person's idea of fairness?

I could go on, but I trust I have made my point. After a period in which New Zealand governments started to eliminate economic distortions and interest group privileges built up over decades of socialism, and sought to direct public help to those genuinely in need, we seem to be going back to the days when special interests and political constituencies dictated policies and reaped government favours. We are seeing the interests of union, tertiary student, pensioner and some business lobbies taking precedence over those of less well-off consumers, taxpayers and the general public. All these policies can be criticised on the grounds that they are harmful for living standards and economic growth, but they are equally open to criticism on the grounds of fairness. Freedom is good for both.

There needs to be a broader debate over what constitutes fairness. The Business Roundtable will shortly be contributing to that debate with a publication that examines equity as a social goal. Fairness has many attractive dimensions. Equality before the law in a civil society is a vital goal. So too is safeguarding each person's right to their person and property. An equitable society is one in which individuals have the same rights to pursue their own personal interests, provided they do not infringe on others' rights to pursue their goals. Principles of equity also support a case for a public safety net if reliance on savings, insurance, families, friends and private charity is insufficient to prevent genuine hardship.

Fairness also requires a distinction to be made between poverty and inequality. Compassion for people in dire circumstances is a proper motive for public policy. By far the most powerful form of poverty relief in most cases is plentiful employment opportunities in a growing economy. The Labour government stifled such opportunities when it was last in office by its refusal to free up the labour market, and unemployment soared as a result. The new government is poised to repeat that mistake. The prime minister has set a goal of getting the unemployment rate down to 3 percent, but the government is re-regulating the labour market and making welfare more attractive relative to work. This is a glaring inconsistency.

Helping the poor by way of promoting jobs and growth and providing a social safety net is a different goal from that of reducing inequality. While helping the poor is founded on compassion, a concern for inequality has much more to do with envy and has little to commend it on grounds of fairness.

Most professional economists believe a change is good if it makes someone better off without making anyone else worse off. There has been a relatively greater increase in higher incomes in many other countries in recent years, and incomes of the most skilled in New Zealand have risen too, partly in response. However, the relative position of the lowest income group in New Zealand has been broadly maintained, and many individuals in the lowest category have moved up the income ladder over time. Recent developments have, however, interrupted a long-run international trend to more equal incomes, which may well resume in due course given the equalising effects of competition. The main reasons for the recent changes internationally appear to be greater rewards to high skills, the rise of entrepreneurial activities, longer hours being worked by high-wage individuals, an increase in two-income families, and the wealth effects of strong investment markets. It is hard to see what objections can be raised against these sources of higher incomes: they benefit some without reducing the incomes and wealth of others and, in the United States at least, the rising tide is lifting all boats, including those of the poor.

A thought experiment easily demonstrates why reducing inequality can be absurd as a social goal. Suppose Bill Gates decided one day to transfer Microsoft and all its staff to New Zealand. You would think this prospect would be welcomed with open arms: Microsoft is the most powerful symbol of the knowledge economy, it is in a non-polluting industry, it provides high-paid jobs and pays taxes, and there would be no demands for state subsidies and few implications for welfare.

But you would be wrong. About a quarter of Microsoft's staff are reported to be millionaires. It would not be long before a poverty researcher at one of our universities pointed out that the arrival of Microsoft would increase income inequality in New Zealand and, given the way relative poverty is measured, increase the percentage of

households who are said to live in relative poverty. On this criterion, Microsoft's relocation would be a bad thing.

A more mundane demonstration of the same result is that additional enrolments in tertiary education worsen income inequality, first by increasing the proportion of the population on low incomes and later by increasing the number of university graduates earning higher incomes. Yet not only does the government welcome that trend, it is increasing the subsidy for this growth in 'inequality'.

We need a proper debate about the notion of fairness. Too many claims and charges are going unanswered. Take the frequent claims about 'greed'. Of course there is such a thing as greed, but it is not the same as working hard to get on in the world, support your family and be self-sufficient. As the economist Thomas Sowell has said, "I have never understood why it is 'greed' to want to keep the money you have earned but not greed to want to take someone else's money". Compassion for the poor is a proper aspect of fairness, but compassion needs to be distinguished from a desire to reduce high incomes that are fairly earned in a competitive market. The latter can only be motivated by resentment and envy. Envy used to be regarded as one of the seven deadly sins, but too often it masquerades as social justice today. Pandering to people's worst feelings and buying votes with other people's money is not evidence of compassion. Nor is compassion measured by the level of state spending.

New Zealand is not going to get over its present discontents and settle permanently on sounder policies until we think more clearly about these issues. The debate is not primarily about *goals*: fairness, properly understood, is a valid social goal. Rather, the debate is about the *means* of promoting a fair society. The prevailing assumption in New Zealand and many other countries has been that command-and-control policies, high taxes and extensive state redistribution produce a fairer society. The American journalist, Walter Lippmann, pinpointed the problem with this assumption many years ago. He wrote:

The collectivists ... have the zest for progress, the sympathy for the poor, the burning sense of wrong, the impulse for great deeds, which

have been lacking in latter-day liberalism. But their science is founded on a profound misunderstanding ... and their actions, therefore, are deeply destructive and reactionary.

Few governments in office today argue that state-sponsored collectivism is an engine of economic prosperity, but neither is it an engine of social equity. Evidence from the former socialist countries and the welfare states of Europe demonstrates that an excess of enforced collectivism breeds poverty, privilege and divisiveness, not the compassionate and cohesive societies that both liberals and well-intentioned collectivists desire. Rather, societies need to preserve a high level of freedom for individuals to pursue goals of their own choosing, constrained by the rights of others, if they want both prosperity and social cohesion. Not all their projects will be individualistic; often individuals will band together freely without government compulsion to pursue their goals. Team New Zealand is a classic case in point.

It has been said that the socialists have had all the good tunes, and they have certainly succeeded in making their opponents, and those trying to clear up the mess afterwards, look uncaring and hard-hearted. History and evidence, however, are not on their side. I pointed out that, historically, those on the left favoured what we would today describe as liberal policies. Those who criticise the legacy of socialism in New Zealand, and current attempts to resurrect it, must recapture the high ground. Even centre-left governments in Europe, which for years were critical of the allegedly 'harsh' features of American capitalism, are changing direction in the face of evidence that the United States is out-performing Europe in dealing with problems of social disadvantage. By contrast, New Zealand is now headed in a direction that is destined to make it a poorer country, and to damage the interests and prospects of poorer New Zealanders in particular. Not one of the government's policies that I enumerated promotes fairness.

So the challenge for true liberals – whether of the left or right, if those terms have any residual meaning – is to express confidence, conviction and passion about how New Zealand can and should be both a more prosperous and a fairer place with greater personal freedom, limited government and open, competitive markets. True liberals have every right to heap scorn and derision on the arrogance and morality of big

government with its endless pathologies of unintended side effects, capture by vested interests, corruption, waste and incompetence. They must dismiss as nonsense the claims that their programmes are uncaring and hard-hearted. They should summon up the buoyancy and optimism of politicians like Ronald Reagan in reaching out to ordinary people and describing what this country could be like if people were free to use their creativity and energy in pursuit of their own dreams.

Part of this task, I have argued, must involve a special focus on fairness. New Zealanders relate to fairness, and rightly so. Fairness has been a trump card for socialists, but their ideology is bankrupt. There is a huge task to articulate a consistent alternative framework to help New Zealanders grapple with fairness issues. The ACT party and other liberals must think through how to challenge the prevailing climate of opinion and restate sound concepts of fairness in a way that the average person can understand. They must make the distinction between fair opportunities and compassion on the one hand and favouritism, privilege and envy on the other. They must explain that fairness does not consist in knocking anyone who sticks their neck out or makes a mistake, and deriding rather than celebrating initiative and innovation. They must make their vision of a fair and prosperous society compelling. Unless they do so, people will be driven to populist causes, and ACT will too.

New Zealand did not become a first-world country through big government. It flourished when governments were smaller and concentrated on the core roles that only governments can undertake. Its success was due to the efforts of its pioneering men and women building a new life for themselves in a remote and difficult land. They were self-reliant and they helped each other. They did not believe that being your brother's keeper meant delegating the job to Big Brother. Those who understand what made New Zealand a fair and prosperous country must summon the passion to make it one again.