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YOUNG PRESIDENTS ORGANISATION

THE BUSINESS ROUNDTABLE IN 2001

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**AUCKLAND
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Your chairman has asked me to give you some background on the Business Roundtable, describe how we function, outline issues and research projects on our agenda, and discuss the results and influence we are achieving.

He has also invited me to offer some views on whether New Zealand has a first world or a third world future, whether businesses and business people like yourselves should stay or leave, whether New Zealanders really want economic success, and how business people can help bring about change. Those are thought-provoking questions.

Let me start with a quick sketch of the organisation. The Business Roundtable comprises primarily chief executives of major New Zealand businesses. The United States Business Roundtable and the Business Council of Australia are similar organisations of CEOs with around 200 and 90 members respectively. You need an organisation constituted to meet the needs of busy people running large firms if you want them to take an interest in national affairs.

Currently we have some 50 ordinary members and half a dozen associate members – prominent business people who are not chief executives. That is about the optimum to keep our size manageable. Membership is by invitation but we welcome the involvement of business leaders who share our aims. There is a regular turnover due mainly to retirements, transfers or company reorganisations. This year some 15 new members have joined. Murray Horn, managing director of the ANZ Banking Group, is currently our acting chairman.

Our aim, as set out in our statement of purpose, is unchanged since the organisation's formal establishment in 1986. It is to contribute to the overall development of New Zealand and promote the interests of all New Zealanders concerned with achieving a more prosperous economy and fairer society. Societies that are prosperous can also afford a safer, cleaner environment and better look after their elderly and the needy. We believe these objectives are best achieved by policies

for open competitive markets, excellence in the provision of core public services, modest taxes and moderate regulations.

We do not seek to advance the interests of business at the expense of the interests of workers, consumers or any other group. We emphatically oppose policies designed to protect any existing firm or industry from competition. Protection from competition hurts consumers and holds back innovation. Competition and free markets redistribute wealth and resources from vested interests to ordinary people. We have often advocated policies that are not in the immediate interests of any particular member or group of members but which we believe serve the common interest. Nor are we against not-for-profit organisations – we are one ourselves.

I think most members join the organisation because as individuals they want to help promote a better New Zealand. There is also the consideration – an element of self-interest if you like, and a justification for paying the bills – that businesses at large will only do well in a healthy, growing economy.

I run a small office in Wellington with one research assistant and two administrative staff. Most of our resources go on research, usually undertaken by New Zealand or overseas academics or other experts, and on communications, which includes bringing overseas speakers to New Zealand. In a sense we combine the features of a think tank and a business organisation.

Our prime focus is on the overall direction of economic and social policy and on issues that have a major influence on the country's well-being. Thus one of our reports this year brought out the contrasts between New Zealand's policy record over the past decade and the directions in which more successful countries have been moving.

This year we have also published studies, some of them book-length, on public sector management, corporate social responsibility, the idea of a currency union, poverty and benefit dependency, the impact of high government spending and taxation on economic performance, and middle class welfare – government provision of services to people who are comfortably off. The next publications will

be on options for constraining government regulation and the risks of a Tasmanian future for New Zealand. In the pipeline are major books on education and the family, the latter as part of our interest in welfare.

This year we have also made substantial submissions in response to the Budget Policy Statement, the superannuation fund proposal, the government's tax review, the discussion paper on the Privy Council issue, the review of the Public Works Act and the dairy industry legislation. We network closely with other business organisations, and through our involvement with the Local Government Forum, the Resource Management Business Forum and the Education Forum we have made submissions on local government, resource management and education issues. All of this material is in the public domain and on our website, www.nzbr.org.nz

How much influence does our work have? At times we have been pleased that changes we have advocated have happened, and at other times we have been disappointed that what we regard as good arguments have gone unheeded. But there have been many other players besides ourselves in all these debates and it is impossible to know how much our involvement mattered. We aim to undertake quality research and influence thinking on the basis of sound arguments, not to exercise lobbying 'clout'. If the reasoning is sound, we hope it will be listened to; if not, it deserves to be ignored. Sooner or later good ideas tend to drive out bad. Decisions are ultimately the outcomes of the democratic process, which is as it should be.

Some people say that we had a lot of influence during the country's two waves of economic reform but less in recent years. To the extent that our influence made a difference and that moves we have advocated such as deregulation, privatisation and lower taxation have stalled or been reversed, that observation is obviously true. That is a problem for us. But it is even more a problem for the country if these and other developments that are happening worldwide have merit and are not happening here.

Media and other commentators often talk about who has the 'ear' of the government – who's in and who's out in Wellington. We have never wanted to be an old-style

lobbying organisation, seeking influence or doing deals behind closed doors. We have always sought to have good relations and open dialogue with governments and opposition parties in a non-partisan way. We had Michael Cullen to our last meeting and Jim Sutton earlier in the year; Bill English will be joining us in November. We have innumerable contacts with select committees, official inquiries and government agencies. We have never felt that we have not been listened to, even though there have been plenty of occasions when our views have not been accepted.

A key point to make here is that policy debates are about much more than the views of a government at a particular point in time. Governments change, as do the policies of individual political parties. Ultimately what drives policies are general community views and attitudes – the democratic process reflects them. Much of our effort is directed at public understanding, including working with the media which have an important role in informing and educating the public.

A good illustration of this point is the removal of the dairy industry's single desk monopoly just this month. We argued for more than 10 years that the industry should be deregulated to improve its contribution to the economy. For most of that time there was hostile resistance by the industry and no support from incumbent governments. Gradually opinion changed to the point that the industry itself started making our arguments to politicians. Similarly, it will be interesting to observe the political reactions to the government's tax review. Its thinking is very much in line with our view that New Zealand needs to stand out from other countries with a lower, flatter tax scale. There is now a broad constituency for moves in this direction among business organisations and tax professionals. At present the government is not well disposed to such moves. Over time, political parties will be forced to confront the weight of these arguments.

It goes without saying that challenging sacred cows like producer boards or union privileges and arguing for change is seldom a popular role. It has involved plenty of flak and negative perceptions, and a good deal of playing the man rather than the ball. The more an organisation is thought to be influential the more it is likely to be a target of people whose vested interests or views are threatened.

Criticism goes with the territory on any new issue. Initiatives we supported such as GST, the Reserve Bank Act and freeing up shop trading hours were highly controversial at the time. We made ourselves unpopular with the National Party by criticising their opposition to GST. As I recall, we were joined only by Federated Farmers among business organisations in supporting the Reserve Bank Act. Shop workers protested at our office over trading hours. Today few would wish to turn the clock back on these changes.

Negative perceptions seem to have faded somewhat: a poll last year found 36 percent of people saying they viewed the Business Roundtable favourably and 48 percent said they thought we did a good job – much the same ratings as the former Employers Federation and the Council of Trade Unions and well above ratings in earlier years. Part of what we struggle with are the more general anti-business and anti-market attitudes in New Zealand that hold the country back. It would also be easy to be more popular by keeping our head down and going along with the status quo – many in business do just that. But that is hardly consistent with our aim of wanting to see New Zealand do better.

We remain ambitious for New Zealand. No one in business has an interest in talking the economy down but equally no one should pretend that things are satisfactory when they are not. Deep down I think most political parties and most of the public know that the country's economic changes were necessary and beneficial. But the main ones are almost 10 years in the past; New Zealand has stood still or gone backwards while other countries have moved on, and the current outlook is no better than mediocre. Ten years ago New Zealand was ahead of Australia in a number of policy areas; today I would gladly swap Australia's overall policy package for ours.

There is no reason why New Zealand could not climb back up the international income rankings. The country does not lack resources, including business skills. Most businesses meet the capital market test of covering their cost of capital. There have been a handful of egregious failures but despite their size, they don't account for the country's problems in generating wealth. Essentially what matters for modern economic growth is superior policies and institutions – like political

arrangements and sound laws. Tasmania is a warning of what happens to a country that lacks advantages of size and location and persists in shooting itself in the foot.

Do New Zealanders really want to do better? Some are content with mediocrity: Jim Bolger used to say we were "too ambitious". However, I think most want to get ahead. A recent report of the New Zealand Study of Values found that relative to citizens of comparable countries, New Zealanders were keener on economic growth, more interested in money, and less well disposed to Green ideologies. Trade unions haven't stopped making wage claims. The worry, however, is that more of those who want to get ahead will take the opportunities to do so that abound around the world today.

How should talented and ambitious business people, who are also dedicated New Zealanders but frustrated by a mediocre environment, size up their options? Some may have little choice. Their firms may reach the limits of the New Zealand market and have to move offshore if they want to grow. The problem is not that this happens but that it sometimes happens for the wrong reasons. Those managing public companies are duty bound in the interests of their shareholders to seek opportunities in bigger and faster-growing markets if the domestic environment is poor. Flight is also in many ways the easier option: it involves less hassle, often less tax, and escape from a culture that does not look very favourably on business success. Committed New Zealanders can still contribute to the common cause from abroad.

The alternative is to stay and fight for a better future for the country from a home base. I have great respect for leading New Zealand business people who have stood up for economic changes, sometimes to the short-term cost of their own businesses. I have less respect for prominent business people who have benefited enormously from things like the removal of import licensing and tariffs, better employment law and deregulated domestic markets, but have stood aside from the fray in the interests of popularity and taken a free ride on the efforts of others. Nor is it enough to talk endlessly about the need for national leadership, adding value, changes of attitude and other business-speak banalities. It is necessary to engage in the difficult policy debates on issues such as tax, education and welfare that Don Brash was

raising at the Knowledge Wave conference. The only way I know of winning such arguments is by arguing.

Time is now not on New Zealand's side. We have squandered nearly a decade of opportunities to build on the earlier gains. The short-term economic outlook may take a turn for the worse. No economic commentators see New Zealand being more than a 2-3 percent growth economy in the medium term. This is a recipe for ongoing decline.

It is a year since the government responded to criticism that it was anti-business and sought a positive dialogue with the business sector. That change was welcome and the business community has worked to engage constructively on policy issues. As yet, however, little of substance has emerged. Initiatives in areas from employment law to environmental regulation to local government are being mooted which would depress growth prospects further. Business organisations are now looking for serious responses to their concerns. A recent survey in the *National Business Review* reported that 77 percent of chief executives believed the government does not have the policies to lead New Zealand to economic prosperity. We need more voices in business, politics and the media urging changes that would get the country back on to a better path.

I don't have a crystal ball that answers your president's question: "Should we emigrate now, while we are still young enough, to countries that will provide better opportunities for ourselves and our families, or stay in New Zealand and risk becoming part of the third world?" What I do know is that the collective choices we make will determine whether New Zealand stays part of the first world. As the late Mancur Olson, one of the world's leading writers on the rise and decline of nations, has put it: "Those countries with the best policies and institutions achieve most of their potential, while other countries achieve only a tiny fraction of their potential income". Olson went on to say that:

... the large differences in per capita income across countries cannot be explained by differences in access to the world's stock of productive knowledge or to its capital markets, by differences in the ratio of population to land or natural resources, or by differences in the quality of marketable human capital or personal culture ... The

only remaining plausible explanation is that the great differences in the wealth of nations are mainly due to differences in the quality of their institutions and economic policies.

In other words, the choice between a first world and a third world future for New Zealand has little to do with our natural endowments or with the rest of the world. Decisions about the quality of our institutions and policies rest squarely in the hands of New Zealanders and their governments.