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WHAT AMERICA MEANS FOR NEW ZEALAND

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In 1997, two years after he visited New Zealand as a guest of the New Zealand Business Roundtable, the British historian Paul Johnson published his acclaimed book *A History of the American People*. In its concluding paragraph, Johnson wrote as follows:

> America today, with its 260 million people, its splendid cities, its vast wealth and its unrivaled power, is a human achievement without parallel … [M]any unresolved problems, some of daunting size, remain. But the Americans are, above all, a problem-solving people … Full of essential goodwill to each other and to all … they will attack again and again the ills in their society, until they are overcome or at least substantially redressed … The great American republican experiment … is still the first, best hope for the human race.[1]

Australians, generally speaking, relate easily to Johnson's view of America. Thus prime minister John Howard could say to the US House of Representatives in June of last year:

> The bonds between Americans and Australians are as strong as they are genuine; and that is, of course, because we share so many values in common: A belief that the individual is more important than the state; a belief that strong families are a nation's greatest resource; a belief that competitive capitalism is the real key to national wealth; and a belief that decency and hard work define a person's worth, not class or race or social background …

John Howard went on to say:

> … there is nothing false or phony or lacking in spontaneity in the relationship between our two peoples. It is not contrived … We like each other, and we do not mind saying it …

It is difficult to envisage our prime minister using those words – let alone being invited to address a house of Congress. That raises issues that are worth reflecting upon.

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[1] Paul Johnson (1997), *A History of the American People*, Weidenfeld & Nicolson, Great Britain.

Of course many ordinary New Zealanders do relate to Americans as easily as Australians. I was struck by the outpouring of sympathy for the victims of September 11 manifested in the bunches of flowers outside the American embassy. New Zealand and America are both New World societies. New Zealanders visiting the American west cannot fail to be struck by the parallels: the pioneering endeavours, the railroads, the gold rushes, the clashes with indigenous people, the community life of small-town America. To a much greater extent than used to be the case, the United States has become the country of choice for many of our young and most enterprising people. We sometimes remember that, were it not for America, we might well be speaking Japanese today.

And yet attitudes towards America among the intelligentsia or so-called elites in New Zealand are, I think, more ambivalent. It's true that outspoken examples of the 'Great Satan' or the 'America-had-it-coming-to-it' crowd are few and far between. Yet standard-bearers of anti-Americanism such as Noam Chomsky draw big audiences in this country. National Radio can't get enough of people like Chomsky, John Pilger and Robert Fisk.

We can see these tendencies at the official and political level too. In my 10 years in our foreign affairs establishment, I was struck by a kind of culture of 'triangulation' – a habit of wanting to distance New Zealand from the United States, almost regardless of the merits of an issue. I would be the last to advocate unquestioning support for US positions. But I happen to think that more often than not, America has been on the right side of the big international issues of the last half century, and that distancing for its own sake is rather odd.

More recently, New Zealand has been drifting apart from the United States (and Australia) across a range of issues. The first big break was, of course, the suspension of the ANZUS relationship in 1985. Our current government seems more in sympathy with the general thinking of the social democratic countries of Europe than with the United States, Australia and even Britain. We see this in its approach to such diverse areas as human rights legislation and the judicial role, welfare arrangements, levels of government spending and taxation, labour market legislation, environmental policies such as the Kyoto Protocol and, of course, Iraq. For reasons I will come to, I think these general trends are worrying.

A point that I think New Zealanders often overlook is that America is first and foremost a constitutional democracy, and it is less inclined than democracies in Europe to cede its sovereignty to supranational authorities, as Francis Fukuyama emphasised in his 2002 Sir Ronald Trotter Lecture. To a far lesser extent than is the case in New Zealand, the policies the United States adopts are not just the whims of a particular administration. Welfare reform is one example: support for the changes of the past 10 years is bipartisan. Kyoto is another: there is no way a Gore administration would have ratified Kyoto when the Senate had voted 95-0 against ratification unless China and India were part of it. And while the jury on Iraq may be out for many years, there is no doubt that President Bush's actions had very broad public and political support.

Even in the case of policies such as capital punishment and gun laws which many New Zealanders, myself included, dislike, it cannot be denied that they enjoy democratic support. And as I found when I asked people the question in preparing this talk, the list of things that most of us dislike about America today is not a long one.

Fifty years ago, race relations would certainly have been on the list. Even though it was part of many cultures historically, slavery was acknowledged to be America's birth defect; many of the founders were deeply troubled by it and accepted it only in the interests of the Union. Its legacy was long and bitter but at last it is fading. In the year 2000, a *New York Times* poll found that a mere 7 percent of blacks thought racism was America's biggest problem and a majority thought race relations were generally good. That turnaround in attitudes since the troubled days of Martin Luther King must rank as something akin to a miracle.

What else? You still hear people talking about poverty and inequality in America, and of course these problems exist. Yet poverty is worse in Europe, and people classified as poor in the United States have incomes that exceed the average incomes of most nations. If New Zealand were part of the United States, it would be the poorest American state, and today the average income of black Americans exceeds the average income in New Zealand. Income inequality is likely to be a feature of a country which has for decades absorbed many of the world's poor. But the American idea of equality is primarily one of opportunity: you might start poor, but with hard work and enterprise you might end up a Bill Gates. And as an Indian would-be immigrant put it, "I really want to live in a country where the poor people are fat."

Other people talk about American 'imperialism', and it is no doubt true that the United States has made mistakes in exercising its leadership around the world. But imagine how the Soviets would have acted if they had won the Cold War. Americans are not by temperament empire-builders or occupiers of territory. And would the world be a better place if the United States were isolationist, leaving places like Kosovo to their fate and not defending an open world trading system?

Another common complaint takes the form that the United States represents only 5 percent of the world's population but consumes 25 percent of the world's resources. But this is an economic fallacy several times over. America also creates a similar proportion of the world's resources; many resources, especially human ingenuity, are unlimited; and the world would be a poorer place if Americans were less productive.

If you try hard, you can add to this list of criticisms. Some New Zealanders complain about American culture, but when challenged they have to admit that America has some of the finest examples of both high culture and popular culture in the world. Our young people, and millions in Europe and Asia, go to concerts by American entertainers and tune in to Friends and Cheers because they like them. The world famous cellist Lyn Harrell has just completed a New Zealand concert tour to sell-out audiences. Fears about American cultural domination go back a long way: in 1904 a German author wrote an essay called 'The Americanization of the World'. These attitudes of some of the elites are well rehearsed but are largely unfounded. After September 11, David Boaz of the Cato Institute summed up the anti-Americanism:

> … that unites the Islamic terrorists, the anti-globalization street protesters, the resentful right, and the literary left: They hate the culture of markets and liberalism. They hate the Enlightenment and modernity. They hate reason, science, technology, individualism,

> pluralism, tolerance, progress and freedom. And to be more specific, they hate Wall Street, Hollywood, McDonald's, Starbucks, Microsoft, Ralph Lauren ads, and the casual joy of American freedom.[2]

As I see it, the good things about America swamp the defects. It is the pre-eminent cosmopolitan society: people from dozens of nations perished in the World Trade Center. For 200 years it has been the world's most successful melting pot. It has its fair share of crack-pot organisations, but unlike Europe it does not have extremist political parties, and President Bush enjoins American school children to get Islamic penpals. Its economic system has demonstrated its superiority over European and Japanese rivals. Its pro-business attitudes and entrepreneurial culture are strong: they survive inevitable business failures and corporate scandals and insist on corrections without calling in question the system. America is the world leader for technology and innovation. Its best universities are the finest in the world. Its school system suffers from the problems of public monopolies, but moves towards school choice now look unstoppable. With the reforms of the past decade, problems of welfare dependency and crime are reducing. Contrary to many perceptions, almost all indicators of environmental quality in the United States are improving. America's admirable tradition of philanthropy reinforces its strong civil society.

Perhaps what I like most about America is its energy, dynamism and optimism, and its openness to ideas, criticism and change. The spirit was summed up recently by the American Enterprise Institute scholar, Michael Novak – himself of East European background – in a letter to "my dear friends in Europe":

> America used to be a young country, but we are grown up now, and it's perfectly all right to hate us, and certainly to tell us where we are wrong … So keep your criticism coming. We will use it to get better, and stronger, and probably richer.[3]

Given Europe's 'free-loading' on US defence and technology, this is enormously generous.

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[2] David Boaz, 'Attacks on American Values', *CATO Today's Commentary*, 1 October 2001.

[3] Michael Novak, 'Anti-American European', *National Review Online* (http.www.nationalreview.com), 30 July 2003.

Of course to admire America is not to dislike other countries and cultures, and deny the manifold opportunities to learn from them. I am a graduate in European languages and think American food will never rival Europe's, and I come back intellectually stimulated from every visit to Asia. But economically, I see New Zealand's current lodestar, Europe, and Asia's once-largest economy, Japan, as unsatisfactory models to follow.

Despite the single market created by the European Union, Europe's political instincts – and those of Germany and France in particular – remain protectionist, welfarist and statist. My guess is that in the next 10 years we will see reform efforts in these countries regularly defeated or watered down in the face of opposition by trade unions, welfare lobbies, farmers and state-dependent industries. Japan's decade-long stagnation shows no sign of ending because of similar political paralysis. The gap between these economies and the United States looks set to grow wider.

It is against this background that I think we need to consider the idea of a free trade agreement between New Zealand and the United States. Recent American administrations have been actively pursuing bilateral and regional free trade initiatives in parallel with wider trade liberalisation through the World Trade Organisation. Besides the North American Free Trade Agreement with Canada and Mexico, negotiations have been completed or are underway with, among others, Singapore, Chile and, of course, Australia. The United States has been giving some priority to countries that rank highly in terms of having free and open economies. On that score, and because New Zealand is already in a free trade agreement with Australia, it should be well up in the queue.

For its part, our government is keen on concluding an agreement, both because of the opportunities it presents and because of the risks to New Zealand if Australia secures an agreement and we don't. While multilateral trade liberalisation should remain the top priority, the business community supports the government's aim; it sees the goal of an FTA as one of the few significant pro-growth policies on the government's agenda.

Why would an FTA with the United States be an important prize? In my view, the answer to this question is not as obvious as it might appear. In Australia there have been various efforts to model the economic gains from a US/Australia FTA. Some findings have been mildly positive but others have been mildly negative; the key point, however, is that the predicted effects are not large. One reason for this is that bilateral trade agreements involve trade diversion as well as trade creation – countries incur economic costs by not importing from the cheapest world source. They can, of course, avoid this problem by unilaterally removing all tariffs, a policy that is generally in their interests anyway.

However, some commentators in Australia are pointing out the limitations of such modelling exercises and making broader arguments. A longstanding advocate of Australia's structural economic reforms of the past 20 years, Wolfgang Kasper, has been critical that Australia's "long, hard climb up the economic freedom ladder has stalled", and that progress is being undermined by proliferating regulations and a failure to tackle labour market restrictions and welfare and fiscal burdens. Kasper has argued that:

> The best hope that these handicaps will be redressed and Australia's flagging commitment to economic freedom will be revived lies in the prospective economic integration agreement with the United States. It is likely to go far beyond a conventional trade agreement and will benefit trade in services and bilateral flows of capital, knowledge and enterprise. The growing integration with the relatively free US economy will make further reforms and competitive attitudes imperative. Therein lies its historic importance.[4]

I think these broader arguments are even more important in New Zealand's case. The economic benefits of greater market access for agricultural products in the United States would be relatively small, especially as they are likely to accrue over a lengthy period and could be offset by trade diversion costs. Of greater significance are the gains from business and investment linkages that Kasper mentions. But most important of all, in my view, are the potential gains for New Zealand of closer association with the world's leading economy. At a time when economic reform in

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[4] Wolfgang Kasper, Economic Freedom Watch, Report No 5, Centre for Independent Studies, Sydney, 10 June 2003.

New Zealand has not just stalled but been reversed in a number of areas, an agreement could trigger a new willingness to adjust and compete.

What might a closer association mean? We might hope that it would be a transmission belt for some of the things that make America such a successful country – its attachment to constitutional democracy, support for limited government and individual freedoms, respect for property rights, entrepreneurial culture, business skills, flexibility and dynamism. Our founders understood the importance of some of these things better than we do today – just think, for example, of the emphasis on freedom in our national anthem – and they helped New Zealand become a richer country than America for many years. Australians understand them better than New Zealanders, to their economic benefit. And I have not mentioned the political and security benefits that might go hand in hand with a closer relationship with a powerful ally in a world that is not about to become strategically benign.

Can the prize be won? The message coming out of Washington seems to be that New Zealand has to really want an agreement and invest political capital to achieve one. It would require economic adjustments on our part as well as America's. It may require other adjustments. Washington has made it clear that in its trade policy it takes account of all aspects of its relationships with partner countries. The ships visit issue is obviously one of these. But for security and other reasons, why wouldn't New Zealand be willing to review a policy that was established 20 years ago, without wide public debate and in a different set of circumstances, and decide whether it remained in its overall interests today? Many New Zealanders enthused about our anti-nuclear policy at the time. But today we could invite visits from American warships with the likelihood that any ship arriving was neither nuclear-armed nor nuclear-powered. No surface vessels in the US navy have been nuclear-armed since September 1991 and few modern navy vessels are nuclear-powered. In any event, the Somers report prepared in 1992 under the chairmanship of a high court judge concluded that the dangers from nuclear-powered vessels are miniscule. That report's conclusions have never been seriously challenged scientifically, here or elsewhere. This issue may or may not be an ultimate obstacle to an FTA. But what seems apparent is that New Zealand will not get an agreement only on its own terms, and that a government and a prime minister that brought a successful agreement off would have a place in history.

It is not yet clear whether Australia will reach an agreement with the United States. Like New Zealand, it will have to consider its domestic interests, and also its important relationships with other countries. Would it be the end of the world if Australia reached an agreement in the near future and New Zealand didn't? No, but end-of-the-world scenarios are not the relevant ones to contemplate. In economic life, no single policy missteps – an increase in a tax rate here, a reversal of labour market deregulation there – are in themselves the end of the world. But the costs of a series of missteps or a series of missed opportunities mount up over time. In my view, New Zealand has already drifted too far away from two countries, the United States and Australia, that should be our closest economic partners and allies. If those countries draw closer and we fail to follow, I think that over time New Zealand will look increasingly lonely, isolated and uncomfortable – not the confident, enterprising and successful country we all want it to be.