

EMBARGOED UNTIL 2.00 PM FRIDAY 14 OCTOBER 2005

ROTORUA CHAMBER OF COMMERCE

BUSINESS ROUNDTABLE PERSPECTIVES ON THE
NEXT THREE YEARS

ROB MCLEOD
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

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My task at the end of this forum is to offer some general perspectives on national issues in the next three years; to suggest measures that would improve the country's outlook; and to discuss the role of organisations like the Business Roundtable and the Chambers of Commerce.

Let me start with the international backdrop.

There will always be ups and downs in the world economy, but overall world economic growth seems robust. This matters even more to New Zealand than access to particular markets.

There is some debate about external imbalances, including New Zealand's current account deficit, but currently there is an excess of savings over investment in the oil exporting countries, Japan and China, and they are running current account surpluses as a result. Countries need flexible economies to respond to changes in international patterns of lending and borrowing but market mechanisms seem capable of handling any necessary adjustments, provided government policies don't hinder them. The Treasury predicts that New Zealand's imbalances will gradually unwind in a fairly benign manner.

The strength of the world economy owes much to the structural adjustment, disinflation and fiscal consolidation policies adopted by many countries in the last 25 years.

What stands out in this picture, however, is the out-performance of the Anglosphere and the rise of China and India with economic liberalisation, in contrast with the relative stagnation in Japan and the big welfare states of continental Europe that have resisted reform. Europe's economic problems are continuing to mount.

Australia and New Zealand are two countries in the Anglosphere whose economic performance has been impressive from the early 1990s, following the dramatic improvement of the quality of their economic management.

In Australia's case, real GDP per head has grown by 2.6 percent a year in the last 10 years and Australia has shot up from 18th to eighth position in the OECD league table of relative prosperity. New Zealand has arrested its slide but the necessary acceleration of its trend growth rate to get back into the high income group of countries is not in sight.

That remains, however, the government's stated top priority objective, and it is one that is strongly endorsed by business groups. There is no doubt that the goal is achievable if the right course is set. Modern economic growth is primarily dependent on institutions and policies that are consistent with high levels of economic freedom and allow entrepreneurship to thrive. These are within our control to determine.

Nevertheless it is instructive to recognise the scale of the task. If New Zealand were to match Australia's living standards within 10 years, our GDP per capita would have to grow by 2.8 percent a year more than Australia's. If we were to catch up within 20 years the necessary margin would be 1.4 percent a year. The required growth rates are well in excess of those in prospect under current policy settings.

It is also sobering to note that instead of having a positive per capita growth differential with Australia, New Zealand has had a negative differential of 0.4 percent over the last 10 years. If this were to continue, the current gap of nearly 30 percent in income per capita would grow wider. There would be a giant sucking sound across the Tasman as more and more New Zealanders were drawn to greener pastures.

What is even more disconcerting is that economic policies in the two countries, which were very much in line for 15 years from the mid-1980s, have moved in different directions.

Australia has carried on with market-oriented, pro-growth economic reforms. Although the Howard government's reform record is seen by many business organisations in Australia as patchy, it keeps on reminding Australians that reform is a never-ending task in a competitive world. Good times are not self-sustaining. As John Howard has put it, "once a government loses its appetite for economic reform, it loses some of the

rationale for its existence". Currently Australia is pressing on with a substantial reform agenda covering tax, privatisation, employment law, welfare, education, business regulation and infrastructure. Australia is also in a different space from New Zealand on Kyoto and on a free trade agreement with the United States.

By contrast, our government has largely abandoned a reforming agenda and instead focused on redistribution, greater intervention in the private sector and more centralised control of services such as health and education. To its credit, it has not fundamentally reversed the post-1984 reforms – indeed its main legacy may be to have advanced a consensus around them – but it has done little to build on the earlier achievements. New Zealand is still a good place to do business, but it is getting harder. As each year goes by, more and more opportunities are being lost – as they were in the Holyoake years.

Business organisations must redouble their efforts to persuade political parties and the community that New Zealand is on a worrying path. Countries do not get into economic difficulties overnight, and governments are usually in denial about trends. New Zealand's economic plight in the 1980s was 50 years in the making, and the Muldoon government was continuing to assure the country that all was well even when it was on the edge of the economic cliff. Those who understand the benefits of past reforms and want a prosperous future for New Zealand have a duty to speak out about current trends. We need more business leaders supporting organisations that are engaged in public debate and giving a lead to the community.

There is no doubt about the general views of the business community on these issues. Prior to the election, a survey in the *New Zealand Herald* reported that nearly 90 percent of business leaders thought that the policies of the centre right parties were better for the economy than those of the centre left. Business organisations were accused of being partisan during the campaign, but this criticism is unfounded. They were simply focused on policy issues and reflecting the views of their members.

Speaking for the Business Roundtable, we have, over the years, both endorsed and criticised policies put forward by all political parties. We were increasingly critical of the directions of National-led governments as the 1990s wore on. We do not mind which parties and governments adopt policies that will take the country forward; indeed we want to see a consensus around sound policies.

In my view New Zealand would be a better place if more people were non-partisan about public policies, and were prepared to evaluate the positions of political parties on their merits. We are doing just that with the Maori Party right now, partly because we want to see greater Maori economic and social progress. There seem to be some important areas of common ground.

In this context it is encouraging that the prime minister has spoken of a more inclusive approach to governing. If she succeeds in forming a government we shall be inviting her to the next Business Roundtable meeting to discuss our thinking and concerns.

There is a strong convergence of views among business organisations on policy priorities. The Business Roundtable works closely with all the main business groups, including the Chambers of Commerce. In association with the Auckland and Wellington Chambers we published a growth strategy in 1996 entitled *Moving Into the Fast Lane*, most of which remains relevant today. Together with the same Chambers and Federated Farmers, we published a report *Constraining Government Regulation* in 2001. Among other things, it canvasses the idea of a Regulatory Responsibility Act, which has been taken up by some political parties.

Prior to the election, the New Zealand Chambers of Commerce published an election manifesto that is also very much in line with our thinking. It emphasised the need for faster growth backed by productivity improvements to improve living standards. It argued for reducing the share of central and local government in the economy and restricting annual expenditure growth to 1 percent a year. The Business Roundtable has been advocating a Taxpayer Bill of Rights which would include tax and expenditure limits along these lines.

The Chambers' election manifesto also recommended:

- domestic and international trade liberalisation
- reductions in tax rates
- upgrading of essential infrastructure, particularly roads
- changes to the Resource Management Act
- a review of New Zealand's Kyoto obligations and abandonment of the proposed carbon tax, and
- restoring confidence in our education sector.

We endorse all those priorities. I believe public support for them grew in the last parliamentary term. The election showed there was widespread interest in tax reductions, for example. A lower, flatter tax structure along the lines recommended by the government's Tax Review in 2001 would do much to increase economic growth and the country's attractiveness generally. We must hope that the government is listening to these changes in public opinion.

The Business Roundtable also believes there should be a new debate on the electoral system. On the same weekend, MMP delivered inconclusive results in both New Zealand and Germany. It has failed to produce effective government in Germany despite the country's monumental problems – a level of per capita GDP that is now only just above the OECD average and an unemployment rate approaching 12 percent (and twice that rate in some eastern regions). By its very nature, MMP is a system that produces weak and paralysed governments and thwarts necessary reforms.

Prime minister Helen Clark opposed MMP; as she said in 1992: "To change the manner of elections to give us a future of perpetual coalitions is not a cure for our discontents". The spectacle of a New Zealand government having to be supported by four or five smaller parties hardly gives investors – domestic or foreign – confidence in the country's directions. Voters

expected they would get a chance to pronounce on MMP again in the light of experience. The time has surely come for that reassessment.

Let me sum up.

New Zealand is drifting.

Thanks to past reforming governments, we have a far more efficient and flexible economy today that is continuing to deliver good results. But for more than 10 years, governments in New Zealand – unlike in Australia – have moved backwards rather than forwards overall. Our score for economic freedom had already fallen by 2000 from its level in 1995, and has fallen further since. The rise of China and India poses new challenges which we must meet, as well as new opportunities. The need for ongoing reform is becoming more urgent.

In the period ahead, the costs of recent policy backsliding are likely to become more apparent. The economy will also be facing economic headwinds in the form of higher oil prices, inflationary pressures, and a loss of export competitiveness.

Higher living standards and increased wealth do not come about by default, accident or luck. They require prudence, planning, high quality institutions and policies, and hard work – at both government and business levels. The quality of some policy proposals put forward during the election campaign, such as the removal of interest on student loans, was abysmal.

Only a continually rising tide of economic progress can raise living standards for all. A focus on redistribution is misplaced. The business community must press harder for a stronger focus on growing the economy. The Business Roundtable and most business organisations today are promoting policies for a more prosperous New Zealand, not policies for protection and privilege.

What matters for all sectors of the economy are the economic fundamentals. All the sectors represented here today are affected by excessive and poor quality government spending and taxation, costly

employment laws, over-regulation, poor infrastructural services and skill deficiencies. Usually these matter more than sector-specific policies.

Let me conclude with a quotation from a recent article by Sir Wilson Whineray which I fully endorse:

Concrete steps to move forward must always start with government. Government's role is to create a climate that encourages people to act in a manner that is helpful to the growth of the nation. Government itself must protect a stable, open democratic system, free from favours or handouts to specific groups. [We need] a moderate, ungreedy government which avoids parliamentary privilege, holds down taxes [and] reduces its claim on surpluses. Further, government must ensure honest structures – legal, banking, accounting, stock exchange etc – that are essential for an honest, open commercial climate. From all of this flows the right to liberty, property, protection and freedom from discrimination of any type.

Business organisations must continue to make these arguments over the next three years. Ultimately our aim must be to influence public understanding of the institutions and policies needed for economic success. In response to changes in public opinion, governments change policies or voters change governments. That's the way it should be in a healthy democracy.