

Rotary Club Of Ellerslie Sunrise

Labels

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LABELS

Discussing the role of business organisations, the recent report of the Porter Project opened by saying:

"Historically, most New Zealand industry organisations have seen their prime role as lobbying government. It is time to change this conception."

The Business Roundtable is entirely comfortable with this proposition, and has been from the outset. Its submission to today's government conference on enterprise policies, which is a follow-up to the Porter study, contains the following statement:

"The Porter team believes that the private sector must undertake the task of wealth creation and commercial decision making within a stable macroeconomic framework and a competitive environment. This is in accord with the approach of the Business Roundtable. It has not been a supplicant for government help. It endorses the view that the government should play a more limited economic role than has historically been the case in New Zealand and that businesses must take responsibility for determining competitive and innovative global strategies and for their own commercial success or failure."

The Business Roundtable started to acquire its present form after the Economic Summit of 1984. Its leaders at the time were concerned to help support the constituency for a radical change in New Zealand's economic directions and sustain it through an inevitably difficult adjustment period. A permanent office was established in 1986 to service the organisation and provide a research capacity. Our statement of purpose commits us to take an economy-wide perspective and promote overall New Zealand interests based on the principles of an open, competitive economy. Other key features of the organisation have included:

- the personal involvement of chief executives of major firms in a New Zealand business organisation;
- a focus on long term rather than short term economic goals;
- an orientation of work towards the overall shape and balance of an economic programme;
- a concentration on major policy topics, often selected on a forward-looking, pro-active basis;
- a commitment to integrity of analysis and argumentation;
- an avoidance of publicity-seeking but a willingness to be open and speak out on major preoccupations.

There are similar organisations around the world. Our nearest counterpart is the Business Council of Australia. Its Executive Director, Peter McLaughlin, recently described its outlook in terms which would fit equally well with our own:

"While recognising the importance of working constructively with the elected government of the day, the Council has consistently eschewed opportunities to negotiate for short term advantage. Instead, it has sought to focus on medium term policy improvement, believing that in the longer term this will maximise its community standing and its influence with both major political parties. It also reflects a belief that the proper role for an organisation such as the Business Council in an open market-oriented democracy is to inform the government of its views, with decisions ultimately the responsibility of the government of the day."

This is a far cry from the accusations of some of our critics that the organisation is some group of rich, power-crazed, self-serving 'business barons' with a hidden agenda. An example of this sort of hysteria was the comment of a teacher union president earlier this year on a report which we commissioned on New Zealand schools:

"The report makes public the Roundtable's real agenda for education - having wrecked the New Zealand economy and destroyed most of the private sector, big business is now looking around for new investment areas and has targeted the public sector, including education, to 'privatise and plunder.' "

This statement says a lot more about the minds of some people in teacher unions than it does about the Business Roundtable. In my experience such outbursts cut no ice with seasoned politicians. Successful advocacy these days is about proper research, doing your homework and getting your facts and arguments straight. It is not about labels and abuse, or defending indefensible positions based on self-interest. I was not surprised to hear a speaker at a recent teacher union conference lament that "no-one out there is listening to us".

Our approach has been to strive for depth, quality, fearlessness and a rejection of self-serving advocacy. We know that if we fall short of those standards we will rightly be attacked. We really have little alternative. We do not have the resources of many of our critics. Marching in the streets is hardly an option for us. Our total staff of 4 compares with 46 in the office of the Post-Primary Teachers' Association. The Council of Trade Unions is reported to have spent \$130,000 on its campaign against the Employment Contracts Bill. This far exceeds our total annual public relations budget.

The approach to economic management that we have advocated is boringly mainstream. It is probably best characterised by the type of policy framework which OECD Ministers have collectively endorsed since the late 1970s following the inflationary and stagnation experiences of that decade. The essence of it is stable macro policies - non-inflationary monetary policy and sound public finances - and micro-level policies aimed at improving market flexibility, economic incentives and competition so as to promote necessary structural changes.

The OECD is hardly a radical or avant-garde organisation. Indeed, as an organisation of governments, it tends to lag behind developments in economic thinking. For example, it was slow to abandon its attachment in the 1970s to fine-tuning demand management and incomes policies. But its recent report on the New Zealand economy, which incidentally is one of the most informative New Zealand

reviews that it has produced for some time, is fully consistent with the views which we have put forward. Among the points it makes are the following:

- The macroeconomic policy mix of recent years has put an excessive burden of adjustment on the traded goods sector.
- This should be corrected by greater fiscal consolidation achieved through expenditure restraint.
- Price stability is desirable for both efficiency and equity reasons. Furthermore, achieving it is the only positive contribution that monetary policy can make in the long run.
- A severe problem exists with high income replacement ratios and work disincentives, especially for married people and those with children.
- The labour market is characterised by an unusual industrial relations framework for wage bargaining between employers and employees. Difficult decisions also need to be taken on minimum wage laws.
- New Zealand tariff rates remain well above the OECD average, and are largely concentrated on industries (textiles, footwear and passenger motor vehicles) where New Zealand has limited comparative advantage.

The OECD report concluded as follows:

"Looking ahead, continued progress needs to be made on achieving price stability. Fiscal consolidation should be pursued vigorously, concentrating on expenditure reduction. The process of microeconomic reform should be continued, particularly in the labour market. There could be a temptation to revert to large fiscal deficits and government intervention to boost economic growth and job creation... Such an approach should be firmly resisted. New Zealand is now a considerable way through the adjustment process. Policies geared to stabilisation and structural adjustment are yielding dividends in terms of lower inflation, enhanced productivity performance, stronger international competitiveness and higher and better quality investment. To build on the reforms of recent years and to underpin the much-needed improvements in the country's medium-term growth prospects, it is essential for New Zealand to consolidate and extend the policy orientation pursued since the mid-1980s."

Such a programme is in line with a widespread international consensus on economic policy that developed in the 1980s. As P.P. McGuinness, the former editor of the Australian Financial Review, has put it, this consensus cannot in any remote way be analysed in left-right terms. Rather, it:

"... agrees on the need for a more liberal regime in which government ownership and regulation are not oppressive, in which individual economic activity is not discouraged by excessive taxation or direction, in which the reality of the market is incorporated into the policy objectives of governments,

and in which welfare and social policy measures are judged by their efficacy, not by their ideological purity."

The description contrasts with the simplistic labels that are often attached to this policy consensus by some New Zealand commentators. Most of these serve to confuse rather than enlighten.

One common label is *free-market* policies. However, there is no such thing in a modern economy as an unconstrained free market. Perhaps the nearest contemporary equivalent to such a free market is the state of anarchy prevailing in Lebanon. Markets need rules within which to work properly. The labour market debate was in large part about restoring the standard law of contract to employment relationships. The real issue here is the legal framework which should govern private transactions in different parts of the economy.

Similarly the use of the term *non-interventionist* does not take us very far. The last Labour government was often described as non-interventionist. One simple measure of the extent of intervention in any economy is the size of the government sector. In the dynamic Asian economies, the public sector share is typically around 30 percent of GDP or less, whereas it exceeds 40 percent in New Zealand. Contrary to the use of this label, the steep increase in government spending and taxation in New Zealand under the previous government was hardly a non-interventionist policy. Decision making through the political process is by definition intervention. The issue for debate is the scope of such decision making - the proper role of the state - compared with the role for private initiative.

Monetarism is another label that gets used in bewildering ways. To an economist, its technical meaning is an approach to monetary control based on aiming for a stable rate of growth in the money supply. Ironically, the only New Zealand minister of finance to adopt such a rule was Sir Robert Muldoon. Narrow monetary targeting has generally been abandoned, but the main teachings of monetarism have been incorporated into pragmatic, 1990s monetary management. However, it is bizarre to hear a monetarist label being applied to policies such as education to which it has no relevance. At that point the label is simply being used as a term of abuse.

As McGuinness pointed out, the contemporary economic policy consensus has remarkably little *ideological* content, in any political sense. It extends from Chile to Czechoslovakia. At the same time, there is no need to shun the use of the term ideology. The roots of the word are the twin concepts of 'idea' and 'logic'. The debate should focus on the logic of the ideas being advanced. There is as much ideology in this sense in taking a protectionist position, for example, as in favouring free trade. Too often the implicit suggestion is: "I have well-founded principles, you are the slave of an ideology."

Perhaps the most empty label in this catalogue is *New Right*. One dictionary describes it as the anti-collectivist revival of the 1970s and 1980s. But the term has been used to describe almost anything and everything that displeases people like Frontline journalists. Those of a market liberal persuasion reject authoritarianism of both the right and the left. The ground has shifted in the 1980s to the point where debating topics pose the question: "Is the New Right all that's left?" The term is best avoided by people more interested in information than emotion.

Finally, it is popular in some circles to characterise the kind of economic policies that New Zealand has been adopting as *extremist*. Labelling a person or a view as extremist is to put them outside the range of discussion. In our complaint on the notorious 'For the Public Good' programme, we challenged the Frontline producers to substantiate their claims of extremism about policies we had advocated. They came up with twelve alleged examples. In two cases their facts were wrong and the other ten turned out to be policies which had been endorsed by one or both political parties in New Zealand and/or by many OECD governments. There is a strong aversion to theory and logic in New Zealand and a belief that the right answer must lie in some pragmatic middle ground. But it is no less arbitrary and dogmatic to maintain that "the truth lies somewhere in between". It may, or it may not. Truth is not necessarily a half-way place. There is no way of avoiding the difficult task of considering the facts and logic that lie behind an argument. As a Chinese proverb has it, the man who stands in the middle of the road is run over by chariots going both ways.

In summary, the labelling game is a substitute for serious thinking and a tell-tale sign of lazy or partisan commentary.

It must be apparent to any open-minded observer that the economic policy debate has shifted significantly in the last 10 years. The Pope has recently come out strongly in favour of the 'new capitalism' and against planned economies and expansive welfare states. He affirmed "the fundamental and positive role of business, the market [and] private property". Church doctrines to the contrary have helped create poverty around the world. It will be interesting to see the influence of this change of thinking on church teaching in New Zealand. As the National Business Review put it, the Pope would approve much of the thinking behind the Employment Contracts Act, whereas local church spokespersons branded it as sinful.

However, elements in the church have not been alone in living in a time warp. One capital market analyst recently wrote of experiencing:

"... that strange mixture of rage and despair that only Morning Report can induce ... another overdose of incoherent pre-news financial analysis, the revelations of vicars who have reached the staggering conclusion that life on a benefit is difficult and even unpleasant, an assortment of commentators talking their book, economic consultants drumming up business, educationalists and health workers agonising over the horrifying possibility that the people who pay their wages may eventually have some influence over what they do ... and the forces of caring and sharing ... ever vigilant in search of employers rash enough to attempt to exploit people by giving them a job."

Morning Report carries some excellent business reporting, but it is regrettably true that it and some other Radio New Zealand programmes serve up much economically illiterate commentary. There is an over-exposure of fringe opinion and economists with little professional standing. Perhaps analysts may be comforted by the thought that markets seem to be trying to tell public broadcasters something at the moment about the quality of their product.

Critics of the sort of economic programme put forward by the OECD and endorsed by organisations such as ours often claim that it 'overlooks people' or 'lacks

compassion'. These too are empty slogans. The argument is not about noble objectives; the proverbial road to hell is paved with good intentions. The argument is about practical policies which will do something effective to create jobs, reduce dependence on welfare and reverse New Zealand's longstanding relative decline in living standards. There was nothing compassionate about previous policies which served us so badly.

As we see it, the government has faced up to some harsh economic realities and has taken some essential steps to correct an unbalanced economic programme. The forthcoming budget will be the next crucial economic event. Delivery by the government on its commitments to cut spending and the deficit in a substantial, sustainable way would boost the slowly emerging prospects of a sound, export-led recovery. Failure to do so, or to resort to tax increases, would be a massive setback to investor confidence and would reverse recent interest rate falls. Simple fiscal arithmetic indicates that a positive outcome is dependent on far-reaching changes in superannuation, health, housing and tertiary education policies in particular, as well as severe pruning or elimination of all low-value government programmes.

Our organisation will continue to advocate policies for sustainable, non-inflationary growth at high levels of employment that satisfy New Zealanders' aspirations for a turnaround in living standards. As we said in our submission to today's enterprise conference:

"The starting point for achieving this goal is an acceptance of the Porter study's conclusion that our economic weaknesses have accumulated over a long period; that we have only just begun the process of rebuilding an internationally competitive economy; that major government policy and business strategy adjustments still have to be faced up to; and that the adjustment process is unavoidably a lengthy one which will be prolonged rather than expedited by recourse to soft options, 'kick start' initiatives and efforts to shelter interest groups from necessary change."