

**New Zealand Institute of Management  
Canterbury Division**

**Sorting Out The Playing Fields**

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**CHRISTCHURCH  
18 SEPTEMBER 1991**

## **SORTING OUT THE PLAYING FIELDS**

I am delighted to be here today. It is appropriate that Canterbury should sponsor a forum which focuses positively on the future. Along with the rest of the South Island, being close to the rural economy meant our region was a front runner into the recession and has learnt to live in the competitive environment. One can see signs of resources moving into areas where we are internationally competitive.

Positive attitudes can go a long way if they are supported by hard work and imagination. For the usual sporting allusion, I give you Sir Richard Hadlee, a man of no startling physical advantages but no shortage of these attributes.

I once heard him speak at a party where Ted Dexter, the Oxbridge British captain, also spoke. One flounced around in the bland public relations style of a has-been dilettante. The other was plain and unequivocal. Images of the competing Hadlee brothers playing through dusk in their parents' back yard seem clear and ring true. This determination made him one of the world's best. Such dedication and drive can work just as well in business.

An important question to ask is how does one become positive about achieving growth?

I have prepared a short list of 'dos' and 'don'ts'.

Don't take much notice of things that come out of Wellington, apart from your tax demand from Inland Revenue. Don't visit too often or you will become depressed. 'Morning Report' can have the same effect on you.

Next, don't expect government officials or 'experts' to come up with worthwhile business propositions. If they were really good at this they would be doing it themselves.

Ideally, on the 'do' list should be a trip overseas to see how business operates in Asia, North America and Europe. If the trip is extensive enough, you will come back seeing New Zealand in a whole new light. The 'problems' afflicting us will have greatly diminished and the country will be seen for what it is - largely virgin territory for business people with new ideas.

Compare our problems to those facing Eastern Europe now. I think there is a sporting chance that the East Germans, Poles, Czechoslovakians and Hungarians will get to grips with their seemingly insuperable problems. In ten years time, when we land at one of their flash new airports, we may be agog at the dynamic vigour of the citizens and their economies. It may be much the same story as Asia - twenty years ago a real Chinatown existed in Singapore and we generously donated worn out warships to their navy. Much of Asia then looked impossible - now it's a prospering dynamo.

If you cannot afford to travel abroad, go south to Queenstown. This remarkably positive town is full of entrepreneurs with activities which involve tourists and separate them from some of their surplus money. The tourists want to buy novel goods and experiences. The Queenstown locals are very good at helping them.

I doubt that there is any other centre in the world where the tourist has more opportunities for outdoor activities than Queenstown. It is a brilliantly successful concept. The interesting thing is that people are continually coming up with more attractions and activities. Who would have thought fifteen years ago that tourists would want to jump off a bridge with their feet tied to a large rubber band. This innovative idea has made A J Hackett a household name and a millionaire. Queenstown has not been planned by Wellington. It is private enterprise at its best.

I suspect that becoming positive about growth is very much a specific question for the individual. Do I wish to expand my business and take the associated stress and hard work, to convince staff, bankers, advisers and those who have a legitimate right to one's time that the vision is worth pursuing, that the rewards outweigh the hassle? Or is it not more sensible to take a balanced attitude to life, to cruise a little more, not to question the status quo but to concede and agree?

Before talking a little about my own company, I want to deal with some of the myths that have gained currency in recent months about the role the government can play in promoting growth.

We have had a steady stream of people putting the boot into the level playing field and almost bringing this basic economic concept into disrespect. As a result the public discussion has become totally confused.

What the government should be trying to achieve is an overall business environment that is *superior* to that in other countries, thereby making New Zealand a relatively *more* attractive place in which to run a business. We are on the periphery. We have to do better than others to attract investment and entrepreneurial talent. We need a better playing field.

This doesn't require the use of barriers to imports or subsidies for industry. It means ensuring that we have sound education, health and legal systems and an open and competitive economy, because this will maximise efficiency. It means ensuring that government expenditure and tax burdens are kept to a minimum and that the government is not continuously borrowing from the community or from overseas. Finally it means having a stable currency.

If the government succeeds in doing these things properly, it will do a great deal to create a climate for growth. This is not a hands-off role. The government has a positive job to do.

Within New Zealand the playing field should look like a billiard table. Under no circumstances should the government use taxpayers' money to bribe individuals to invest in particular industries. Distorting the tax system, for instance, to help people plant apple trees rather than pine trees would be a gross misuse of public funds. Resources would end up in the wrong places and we would make ourselves poorer. However, that is in effect what many are arguing for.

Our governments have a bad record when it comes to picking winners. Sir Robert Muldoon picked the meat industry as his winner for the 1970s. At the state finance supermarket you could pick up livestock incentive schemes, price stabilisation payments, SMPs, fertiliser subsidies and unbelievable tax breaks. Sheep numbers rose from 55 million in 1976 to 70 million by 1985. When the market collapsed, tens of thousands of tonnes of sheepmeat were subsequently rendered down into blood

and bone. The total cost of the support for the meat industry in the 1980-86 period was \$3.3 billion. Who wants to repeat this exercise? Certainly not the farmers who saw their interest rates soar when farm values slumped.

The manufacturing sector was picked as a winner by the first Labour government in the late 1930s and was cosseted right through to the mid-1980s. The net result was an uncompetitive manufacturing sector that tried to make everything and imposed enormous costs on our internationally competing industries. The pain of withdrawal from these foolish policies may be great - but going back would be much worse. It would undermine those industries that offer our best hope for the future.

The 'Think Big' projects of the early 1980s, together with producer board debt, have left the taxpayer with a bill of \$8.2 billion. Who is prepared to stand up today and urge the government to borrow another \$8 billion to invest in such ventures?

I find it ironic that while the opinion polls tell us that voters lack confidence in politicians, there are still people who say politicians should be 'picking winners' and making investment decisions for us, at our expense.

The Americans have an appropriate term to describe those industries that want taxpayer subsidies for their businesses. They call it 'getting your snout into the public trough'. We don't want this sort of feeding activity in New Zealand.

The last myth I want to discuss is the policies adopted by the Dynamic Asian Economies, commonly known as DAEs. There are some who argue that economic theory is fine, but the booming economies of Asia are successful because their governments play a central planning role.

The Industry Commission in Australia has made a major study of government policies in these countries to see whether there are lessons for Australia. The study looked closely at the cultural, institutional and political factors influencing economic development. Their report, published late last year, said that:

"...it is naive to argue that the success of Japan and the DAEs can be explained principally by governments providing industry-specific assistance."

"...there is no convincing evidence that targeting was crucial to good economic performance. Some industries succeeded with government intervention but, because of the many other factors involved, it is difficult to isolate its contribution. Also, there were assisted industries that failed and unassisted industries that succeeded."

The lessons drawn by the Industry Commission were that:

"...industry-specific assistance is far from being a prerequisite for success and is likely to be harmful, especially if it is extensive and maintained over long periods of time;" and

"...policies which encourage competition in product markets should be vigorously pursued if Australia's economic performance is to be improved, as competitiveness is the key to successful upgrading and innovation."

Since the mid-1980s, I believe New Zealand governments have moved generally in the right directions. The state has stopped trying to distort investment decisions by manipulating the taxation system. It has forced industry, including state-owned enterprises, to face competition from abroad and internally. We have an independent central bank - a model which is finding support around the world. As a consequence there have been dramatic increases in efficiency which are helping to improve the international competitiveness of our industries.

For many people the transition to a competitive economy has been traumatic but this was inevitable. Changes of the magnitude required could not have been made without a lot of pain.

The current government was left with the legacy of the 1987-90 teabreak - the failure to continue facing the hard issues. Many of the problems are now being tackled. The government deserves credit for the responsible way it has dealt with the fiscal problem which was threatening our creditworthiness and driving up interest rates. The labour market reforms, while not ideal, are a major step forward. They will result in more jobs being created as businesses find ways of improving their performance.

There are many areas where central government can further improve the environment for business. Accident compensation, health, education and business taxation are all cases in point and it is good that progress is being made. There are considerable efficiency gains yet to be extracted from local government.

But instead of waiting for the government to create utopia, or fund growth with subsidies, business has to get on with the job itself. This really does require a new mindset. The Porter team found in discussions with business groups that within ten minutes the conversation usually turned to what the government could do to help them. We need to kill this attitude stone dead.

The company I work for, Apple Fields Ltd, is New Zealand's largest apple grower. We also have 35 dairy farms in the South Island. While we are not entirely happy about the statutory marketing arrangements for our apples (or our dairy products), we have looked for competitive advantages. We grow the premium types - Braeburns, Galas, Royal Galas and Fuji rather than traditional Granny Smiths and Red Delicious.

We put a lot of effort into persuading the Apple and Pear Marketing Board to pay us prices that more closely reflect market returns. This has benefited the whole industry. The prospects for the apples we produce look solid. If we could participate in the marketing of our own product, we might be confident enough to increase our production and make more money.

New Zealand is well placed to take advantage of the worldwide trend towards rapid growth of small businesses, often in the service sector and in industries such as tourism. We have the image, the natural resources and a workforce that can exploit the opportunities. At this point there is only one missing ingredient - the enthusiasm to face the challenges.

The reasons for this go deep into the psyche of the nation. Our history of state involvement in the economy has created a dependency syndrome which will take time to shake off.

Far too many people look down on business and see the profit motive as something almost grubby. I don't believe enough of our educators in schools and universities really appreciate and convey the importance of business - its role in creating the jobs and wealth that can give New Zealanders the lifestyles they seek. They can understand the profit motive when it comes to their own incomes, and I don't blame them for that. But I find it amazing that teacher unions and others think that because business is interested in education, this means big companies want to own schools. I couldn't imagine anything further from their minds.

Business does have a legitimate interest in education because it employs the end products. As with any field of endeavour there is scope for further improvement. Instead of greeting business interest in education with hostility, educationalists should welcome the attention, exchange ideas and seek support for the important work they are doing.

To the extent that the general population still looks to the government rather than business as the generator of wealth, we have a real problem.

Are we telling our communities and our schools about the opportunities in industry, the thrill of capitalism and the benefits of profits? I do not remember my school being visited by Sir James Wattie or Sir Clifford Plimmer. I have a clear memory of a monocled Governor-General, a moustachioed traffic officer and numerous clergymen.

The freeing up of the past decade has allowed many genuine entrepreneurs to flourish. For some others the policy changes ran ahead of their ability to adapt. Given the constrained and unexciting nature of our economic nursery, this should not have been unexpected. While business has the freedom of the world, too many managers still lack the skill to make the most of the opportunities. There will be further painful and well-publicised failures, but that is a necessary part of growing up. Those who hanker after a fast economic take-off are going to be disappointed. The road to economic maturity is going to take some time. The profligate indulgence of the last thirty years is giving us the inevitable hangover.

That said, there is no reason why New Zealand should not have one of the best business environments in the world. While the policy reform process is by no means complete, enough has been done to clear the decks for business people with ideas and drive. But we have to stop being shy about what capitalism is all about - namely profits and the satisfaction that comes from involvement in building and managing enterprises. And we must do a better job in selling this message to everyone else.

Maybe we could borrow a few ideas from the United States. America is an optimistic and confident place. There is a general recognition that business is the foundation of the economy. Expectations of what the government can deliver are low. Most Americans believe governments tend to threaten their freedoms and mess up their lives. They want to keep them in their place.

The advertising slogans of their financial media reflect American attitudes. For the Wall Street Journal it is "The Daily Diary of the American Dream". The Forbes magazine promotes itself as "The Capitalist's Tool". When we see similar things happening in the New Zealand media we will know we are making some progress.

The change in attitudes required in New Zealand is of revolutionary dimensions. We need to get moving before the late starters in Eastern Europe catch up and pass us by.