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The Challenge of the '90s: Labour Reform in Australasia

**ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE**

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It is a pleasure and a privilege to be invited to address this Forum and to share a platform with John Hyde. His enormous contributions to public policy have extended to the other side of the Tasman and I have learned a great deal from him over the years.

Thinking about the topic for this meeting, I recalled that in 1989 the organisation that John Hyde was then primarily involved with, the Australian Institute for Public Policy, asked me to referee a manuscript for a proposed publication. It was entitled *The Tortoise and the Hare* and was a comparison of a decade of deregulation in New Zealand and Australia. The essential thrust of the paper was that both countries had pursued similar deregulatory programmes but that New Zealand (the hare) had done so more swiftly and successfully than Australia (the tortoise).

The paper was in many ways a very competent summary of a period of remarkable change in the two countries. Both of them, under Labour governments, were turning away from decades of protectionism and state control and opening their economies to the world. However, I had reservations about three aspects of the story.

The first was the extent to which the two countries' programmes were genuinely parallel. To be sure, there were important common elements such as financial market deregulation and tariff reductions. But I saw the differences as being at least as important as the similarities. I commented at the time:

"The design of New Zealand's strategy was based on the policy framework adopted by OECD Ministers in 1979. This represented a major break from the previous consensus and placed the emphasis on the twin pillars of macro stability and micro flexibility. New Zealand policy makers faced a major stabilisation task in reining in a large budget deficit and debt burden and dealing with suppressed inflationary pressures. They saw the need to offset these contractionary influences by as many efforts as possible to free up markets, improve incentives and make the economy more flexible. Monetary policy settings have been directed at the single target of inflation. Policy intentions have been non-accommodating throughout and are now directed at a 0-2 percent inflation target".

By contrast with this strategy, I suggested that Australia had stayed closer to earlier OECD thinking, involving a more activist Keynesian approach to fiscal management, monetary policy which tended to alternate between targets, and an incomes policy aimed at containing demand pressures. It seemed striking, for example, that there was no counterpart in New Zealand to the role of 'wages policy' in Australia, or to the debates over the so-called 'twin deficits', and the J-curve - all dubious economic notions. I queried whether Australia's experience could be interpreted in part as one that is familiar from many attempts at incomes policies - some favourable short-run consequences but an accumulating set of rigidities and imbalances over time.

The second issue I raised was the impression in the paper that policy implementation in New Zealand was systematic and in line with the preconceived design. This seemed to me to miss a lot of what was important. For example, the Labour government which came into office in 1984 made considerable progress in reducing the financial deficit in the period up to 1986 but stalled thereafter, and - despite the intentions - monetary policy was inadvertently loose on occasions and inflation was slow to fall. Moreover, the New Zealand programme became progressively more unbalanced. Fiscal policy was weak relative to monetary policy, with large deficits putting pressure on interest rates and the currency. Reductions in import protection did not match reductions in farming and export assistance, and labour market deregulation lagged well behind deregulation of goods and financial markets.

The third problem I had was the idea of the tortoise and the hare, in that the author had overlooked the fate of the hare in the fable. New Zealand had to move faster than Australia because its economic circumstances were more desperate and the reforms needed were much more extensive. But by 1989 there was every sign that the Labour government was taking time out for a cup of tea, and every risk that the consequences would be as fatal as they were for the hare.

I summed up by questioning the paper's conclusion that both governments had implemented impressive, if flawed, programmes and rescued the two countries from long-run decline.

"By contrast," I wrote, "I see both countries as in deep trouble, coming out of the 1980s in much worse shape than many other OECD countries and in some respects no better off than when the present governments were first elected. New Zealand, for example, has higher gross and net external debt ratios than in 1984, a much higher tax burden and a large stock of unemployed. In some respects we have switched one set of problems for another. New Zealand certainly cannot be written up as an object lesson in economic adjustment and remains highly vulnerable to policy slippage and a terms of trade decline or other external shocks. Australia may well end up by going through the same kind of wringer as New Zealand in the next two years with a similar fall-out among highly geared companies. The labour markets of the two countries are the worst in the OECD and in the absence of change will continue to perform poorly with respect to unemployment and productivity."

Looking back, I don't feel too embarrassed by that assessment.

By the time of the general election in New Zealand at the end of 1990, the economy had been hit by the international recession and a terms of trade downturn, the Labour government had allowed the budget deficit to blow out alarmingly, and business confidence had been shattered by the loss of policy direction.

The incoming National government was elected on a platform of maintaining the inflation target of 0-2 percent, reining in government spending, deregulating the labour market and redesigning New Zealand's system of state welfare which was, and remains, much more expansive than Australia's. It also made some spending commitments (on issues such as superannuation and tertiary fees) which were inconsistent with these policies, and its actions in going back on these commitments

in the interests of fiscal responsibility have been a factor in its subsequent unpopularity.

This programme was put in place primarily in a welfare package of December 1990, the Employment Contracts Act of May 1991 and the July 1991 budget. The government also basically confirmed the previous government's programme of tariff cuts in 1991. The contractionary fiscal action probably added to the effects of recession in the short term - economic activity, particularly investment, was very soft in the first half of 1991 - although this was quite quickly offset by a fall in interest rates and a rise in confidence as policies were brought into better balance. By the middle of 1991 the recession had bottomed out and an export-led economic recovery has been underway for the last 18 months. The driving factor in it has been a large improvement in international competitiveness brought about by a combination of low inflation, a lower value of the currency as the pressure was taken off financial markets, reductions in tariffs, improvements in productivity arising from the labour reforms and large efficiency gains in the non-traded goods sector of the economy.

Although commentators like Alan Wood, John Stone and, to a lesser extent, Michael Stutchbury saw the picture much more clearly, it is ironic that the popular view that New Zealand had fallen off the map seemed to take hold in Australia at about the very time that it was finally getting a consistent act together and seeing the benefits appear. Of course, a good deal of this misinformation was politically motivated in both countries, or promoted by journalists with a political agenda. As a recent New Zealand editorial described the phenomenon:

"The horror stories across the Tasman of life in New Zealand are rife. School pupils are said to exhibit skin complaints associated with malnutrition and scurvy... if you believe the lead letter in last week's Bulletin magazine. Other tales, usually told by trade unionists with a vested interest in the status quo, are equally terrifying. The social fabric has unravelled, much of the population would starve if not for food banks, cruel bosses exploit helpless workers, and unemployment and crime have soared."

The paper described these claims as extravagant, and two other end-of-year editorials also illustrated the changing national mood. *The Dominion* wrote:

" On every side there is evidence that recovery, long promised as the fruit of all the dislocation, restructuring and pain, has taken root. There is now every hope that we can face the coming year with enthusiasm and energy."

And *The Christchurch Press*, never very close to what John Hyde would call the dry end of the hydrological spectrum, described 1992 as a "defining year" which seemed to see emerge a majority of New Zealanders who favour the new ways:

"This observation," it said, "is supported not simply by the poll results - both at the ballot box and by way of survey - that give the National - Labour consensus domination. It is also supported by the evidence of hundreds and thousands of New Zealanders conducting themselves differently, and a great many of them enjoying the experience to varying degrees."

A poll earlier this month indicated 47 percent of the public believe the country is heading in the right direction compared with 38 percent who said it was heading down the wrong track. And a recent survey put business optimism about economic recovery at its highest level in 21 years.

A similar acceptance of the benefits of change is becoming apparent in the specific area of labour reform. As the government knew, there had always been a strong constituency for throwing overboard New Zealand's system of craft-based industrial awards and monopoly unionism. Polls conducted by our organisation revealed large majority support (of the order of 70-80 percent) for moves such as voluntary union membership, contestable union coverage and enterprise-based contracts. The antagonism towards the Employment Contracts Act which was whipped up by vested interests has abated in the light of experience. In a recent poll around 74 percent of employees reported that they were satisfied or very satisfied with the outcomes of their new employment contract.

The climate of debate about the Act is changing also. John Kennedy, a prominent Catholic commentator, whose criticisms of the Act were reported and endorsed by Mr B A Santamaria in *The Australian*, has had the integrity to change his opinion and recently described the Labour Party's intention to repeal the Act as both "premature and stupid." *The Dominion*, which crusaded vociferously against the reforms, predicting that New Zealand would be plunged into a 'dizzying industrial free-for-all,' wrote in the editorial I quoted earlier that:

"The positive inducement of the Employment Contracts Act can not be over-estimated in building the recovery. Employers will determine the wages they can afford to pay in the light of the health of their enterprises which means the saleability of their products - rather than social theory."

Elsewhere it stated that the outcome of the Act:

"... is sufficiently positive to suggest that the Opposition parties should think again about their knee-jerk pledges to repeal the Act should they get the chance."

There is no need to emphasise to this audience the centrality of the labour market to a well-functioning economy. Labour costs account, directly and indirectly, for around two thirds of the total costs of production. If labour resources are priced in a monopolistic rather than a competitive way, and if firms cannot employ labour flexibly and productively, economic performance is severely handicapped.

A World Bank Study in the 1980's found that the difference between the growth rate of countries which distorted their labour markets - for example by regulations to protect trade unions and enforce minimum wages - and those that kept their labour markets relatively free of distortions was of the order of 1.4 percentage points per annum. The evidence is crystal clear that, far from protecting wages and advancing workers' interests, the ideology of trade unionism as we have known it has massively retarded the increase in workers' living standards in recent decades.

The direction in which New Zealand needed to move in its labour arrangements was first brought home to me in the 1970s in a television interview which Lee Kuan Yew

gave on a visit to New Zealand. He described how Singapore had changed from a British-style craft union based labour regime to the Japanese model. "Japan has got it right," he said. The performance of the Asian economies in the last 10 years with their high rates of productivity growth, low rates of unemployment and relatively even income distribution has confirmed the advantages of open and competitive labour markets. New Zealand and Australia have no choice but to go in that direction if they want to enjoy comparable performance.

By the mid-1980s, many in the business sector in New Zealand had absorbed that lesson. Our organisation's submission to the Labour government's 1986 review of labour market regulation argued for reforms based on the principle of freedom to contract. However, as with the Hancock report in Australia around the same time, the world view of the Industrial Relations Club was still dominant in the bureaucracy and the government. The head of the Department of Labour publicly sided with the President of the Labour Party in opposing such reforms. The conviction of the minister of labour was that "industrial relations are necessarily founded in confrontation." The editor of the *National Business Review* at the time, Colin James, regarded our submission as "pretty theorising," "purist", reaching for a "fanciful degree of freedom" and painting "a make-believe world in which workers choose between competing unions in their workplace or even negotiate their own wages."

The basic reason for freeing labour markets from unnecessary restrictions is to promote high levels of productivity (which support rising wages over time) and the elimination of unemployment. Reformers will need to counter tirelessly and patiently the charge that labour market deregulation is a vicious plot by employers to slash workers' wages. It took me a long time to realise that this view of how labour markets work is a direct legacy of Marxism and its Fabian socialist cousin. Marx predicted that under capitalism wages would steadily fall and the profit share increase, leading to inevitable revolution. He perpetrated the myth of employer power and worker weakness. Every claim to trade union privilege has rested on this baseless proposition. The demise of Marxism as an economic doctrine has made the task of demolishing it easier.

The best way to go to the heart of the matter is to appeal to both historical evidence and simple logic. If regulated unionism, calls for 'unity' and 'solidarity' and strike action were the key to higher wages, we would expect that countries like Poland and Argentina would have been a workers' paradise and, in the extreme case, that countries without unions would be a capitalist hell. But as the recent Nobel laureate Gary Becker has observed:

"Unions were unimportant in the American economy prior to 1930. Yet average earnings greatly increased from 1870 to 1930 despite the huge immigration of unskilled workers, who were more likely to be exploited than were native-born workers."

And the increase in workers' wages in largely un-unionised Hongkong in the last 30 years has been beyond the wildest dreams of any British trade union boss.

Yet the myth persists among the ideologically committed. "Where unions are weak or absent, wages are more likely to fall," Bronwen Reid asserted blandly in a recent absurdly biased *Time* article on Australasian labour reforms. Rush Limbaugh, the

American radio talk show phenomenon, has described *Time* as illustrating "the worst of cause oriented journalism," and the local version seems determined to plumb the same depths. Bronwen Reid is a journalist who was sacked by Television New Zealand for her part in the disgraceful 1990 *Frontline* programme 'For the Public Good'. This programme, which was screened in Australia at the time, made a number of outrageously false allegations about business influence on politics and was condemned by an independent tribunal. However, the tenor of the *Time* article suggests she has learned nothing from that experience. Similar misinformation was contained in a recent Australian Department of Industrial Relations report, one of whose authors, David Peetz, seemed determined not to let anything he saw in New Zealand get in the way of his committed centralist views.

The logical response to the claims of wage slavery based on the alleged inequality of bargaining power between employers and employees has been simply stated by Professor Richard Epstein, who visited Australia and New Zealand in 1990:

"If such inequality did govern the employment relationship, we should expect to see conditions that exist in no labour market. Wages should be driven to zero, for no matter what their previous level, the employer could use his (inexhaustible) bargaining power to reduce them further, until the zero level was reached. Similarly, inequality in bargaining power implies that the employee will be bound for a term while the employer... retains the power to terminate at will. Yet in practice we observe both positive wages and employees with the right to quit at will."

The reality is that in competitive labour markets BHP will have to pay as much, if not more, to get labour than the smallest firm in Australia. It is competitive markets and the productivity that goes with them, not monopoly unionism and copious strike action, that fundamentally protect workers' interests.

Although the doctrine was always bankrupt, it is important to remember that the world has changed beyond recognition from the time of the rise of Fabian socialism and its influence on labour regulation in Australia and New Zealand a century ago.

At that time, in Europe at least, the average person was a semi-literate villager who never went beyond walking distance from the village, from birth to death, and who had little idea of what was happening outside it. There was no state provision for those out of work. Today labour mobility, literacy and communications and a welfare state safety net have reduced to insignificance any potential for 'exploitation'. As the former New Zealand Labour politician and left-wing intellectual Ormond Wilson put it in his autobiography:

"The trade union movement was born of the struggle against oppression, and the oppressor was the capitalist boss. Its unity is preserved to this day only by clinging to this sense of oppression. In New Zealand in the eighties the capitalist boss has almost vanished from the scene, but the myth remains, and is the stock-in-trade of all those trade union functionaries whose livelihood and *raison d'etre* depend on keeping it alive."

Indeed, in stark contrast to the 'one factory town,' labour markets are becoming international, not just for the skilled and internationally mobile but also indirectly for the unskilled as investors seek the most attractive global locations for industry. New Zealand and Australia have to come to terms with the fact that we cannot pay employees more than their skills will command in world markets, and that if we want to keep ahead of the fast-growing countries in the region we must match their rates of skill development and capital investment.

For all these reasons, it was easy to predict that, contrary to the claims of its critics, there would be no collapse in wages following the introduction of the Employment Contracts Act. Of course it is manifestly absurd to judge the success of the Act merely by looking at one indicator, wage rates, for the year after its introduction and in an economy at the bottom of a recession. Nevertheless, official statistics and surveys suggest that real wages on average have increased slightly, even though many uneconomic overtime and penal rates have been cut.

This is remarkable given the tendency for real wages to fall in past recessions, and for an economy with an unemployment rate of over 10 percent. It could even be argued to be a source of concern, given the priority that needs to be given to reducing unemployment. Even in New Zealand it is now recognised, apart from by a few in trade union ranks, that unwarranted wage increases cost jobs. However, what has happened is that, as the reformers argued, labour costs have come down as a result of productivity improvements, and employers have been happy to maintain wages. In the period 1979-89, unit labour costs in the business sector rose by nearly 10 percent per annum whereas in the five years to 1994 the OECD is predicting that they will be almost stable. This is a staggering improvement in New Zealand's competitiveness position. Only the old guard in the trade union movement still prattle on about New Zealand firms seeing wage cuts as the route to competitiveness, rather than the matching rises in productivity and pay that lie behind Asia's economic success.

Other myths are also slowly dying. No sooner was it apparent that the bogey about collapsing wages had no legs than some people started to worry that a free labour market would lead to the opposite result, wage blow-outs. The Reserve Bank, for example, was concerned in 1990 that reforms would not engender wage moderation and argued for a corporatist incomes policy, and some unionists, in direct contradiction to their earlier scaremongering about a collapse in wages, have attempted to push the same line. In its latest monetary policy statement, however, the Reserve Bank has acknowledged that "the new employment environment probably reduces the risk of pressure on the general price level." It is monopolistic regimes, not competitive ones, that are prone to wage blow-outs.

Increasingly, supply and demand conditions for particular skills in particular locations are determining employment terms. This must be the case if unemployment is to fall. While it is indeed a 'buyers' market for labour in many circumstances at present, conditions will favour 'sellers' of labour in due course as labour markets tighten. Wages will start to rise in conditions of higher employment, a configuration familiar to many countries but one which New Zealand has not experienced for many years. Already there have been reports of pay rises of up to 8 percent in the second bargaining round under the Employment Contracts Act, but they are typically being financed at no overall increase in cost to the employer because of offsetting productivity gains. One Christchurch building materials

manufacturer, for example, introduced a gain sharing scheme which resulted in a 17 percent increase in productivity and a 7 percent increase in earnings in the space of a few months.

The fact that supply and demand conditions change in labour markets, as in all others, does not imply any systematic imbalance in bargaining power. There are now few grounds for concern about monopoly power in the private sector labour market in New Zealand. The same may not be true in the state sector, where the Employers Federation has argued that the excess supply prevailing in occupations such as health and education may indicate the existence of market power. However, the government's advisers have argued that the labour market power of teachers and nurses arises mainly from restrictions imposed under monopoly regulation statutes and other government-imposed entry barriers. If this is the case, these problems need to be addressed. It is notable that these sectors have been among the main exceptions to the very low level of industrial disruption since the Act was introduced. Nursing unions have resisted pay adjustments despite serious overstaffing in hospitals and a large surplus of nursing graduates. Sooner or later there is likely to be a recognition that the solution to this problem lies in the kind of moves to eliminate monopoly positions and introduce contestability for services that have brought major gains elsewhere.

Other changes that have occurred in the new environment are dramatic. Employers and employees are now working much more closely together, with better communication and more trust and cooperation. Multi-employer contracts have almost disappeared, down from 59 percent in 1991 to 8 percent according to a recent survey. There has been a big swing to individual contracts. One well-publicised case is Comalco's aluminium smelter, where all but a few of the workforce of 1300 are on individual contracts and the number of man-hours needed to produce a tonne of aluminium has dropped by 31 percent. The gains in the ports industry are continuing, with the Port of Napier reporting a further 30 percent improvement in productivity in the past year. Union membership is estimated to have fallen by around 37 percent, from around 600,000 to 380,000 since the Act came into effect. And industrial disruption is at a 40 year low, with the number of stoppages falling by 65 percent and the number of workers involved in stoppages falling by 63 percent in the 16 months following the introduction of the Act.

There is no doubt in my mind that the government in New Zealand was correct in adhering firmly to the principle of freedom of contract in framing its employment law. The great benefit of a system which allows contracts to be freely made and upheld is that it allows people to do the very best they can for themselves, given their own unique attributes and preferences. People are no longer treated like commodities. Claims that a system of voluntary contracting shifts the balance of power towards employers are simply wrong. Our organisation opposed any suggestion that the system should be biased in this direction because it would not create an efficient labour market and would not be politically sustainable over the longer run. Although provisions such as compulsory secret ballots before strike action or a requirement that an enterprise should not have to deal with more than one union may help business in the short term, they are difficult to reconcile with a philosophy of free contracting.

We took the view that the more important objective was to put in place a principled policy that would not be subject to electoral upheavals, and that firms and their

workforces should assume the responsibility of managing the transition. By and large that approach has been adopted. There is now a good chance that any attempts to score political points by proposing changes will meet the same fate as the National Party's attempt to win votes by proposing to modify the goods and services tax in its 1987 election campaign. The Labour government had by that stage decisively won the argument that a broad-based consumption tax was fair and efficient, and National's gambit was greeted with general derision.

None of this is to argue that New Zealand's present arrangements are ideal, and that Australia cannot improve on them. To the contrary, it is, for example, a strength of the Coalition parties' policy that a shift in the administration of labour law from specialist tribunals to the ordinary courts is envisaged. A concern in New Zealand was that if a specialist jurisdiction was maintained it would become a structure about which a regulated industrial relations system could again be built up and sabotage aspects of the reforms brought about by the Act. This is exactly what has happened. The current Employment Court is now widely referred to as the Unemployment Court because of a pattern of activist decisions, contrary to the principles of normal contract law, over issues such as dismissals and redundancy. While these may have benefited specific employees, they run counter to the general interests of workers and the unemployed by raising the costs and risks of employment. To some of our Employment Court judges, dismissing staff who have grossly exploited their employer's trust or even giving someone a job at a low entry-level rate of pay seems to qualify as harsh and oppressive conduct.

Our organisation and the New Zealand Employers Federation have recently urged the government to make its intentions clear to the courts through legislative amendments, and to review the Employment Court's role. Now that the idea that employment contracts are essentially the same as any other contract is more widely understood, there seems no need for disputes to be handled by judges with alleged skills and experience in industrial relations. As one writer put it:

"It would be cruel to comment on the morals of Family Court judges, but they are not *required* to have skills and experience in the fields of adultery and desertion. What is needed of judges is skill and experience in interpreting and applying the law."

Barring further initiatives of this kind to improve the operation of the labour market, there is little prospect of a rapid decline in New Zealand's unemployment rate. The flexibility introduced under the Employment Contracts Act has helped to bring about a resumption of employment growth for the first time for several years, and unemployment has fallen back from a peak of 10.9 percent of the labour force to its current level of 10.2 percent. However, the government's hopes for further reductions in unemployment appear to be pinned largely on further growth in output. These hopes are unlikely to be realised.

An OECD research has shown, the wide diversity of unemployment experience across countries is not correlated with differences in economic growth, labour supply or inflation. Rather, it is related to institutions and policies that impinge on labour and product markets, in particular factors that affect wage and price setting, job search and hiring. Among these are open-ended welfare benefits, job protection measures, and legal and/or collectively bargained minimum wages that push less-skilled workers, particularly young people, into unemployment.

The OECD has also reported that active programmes such as 'job creation' and training have often been of limited effectiveness, and may actually raise unemployment by generating higher wage pressures. It has argued instead for policies such as increased product market competition to constrain wage claims, freeing up housing markets, keeping the wage costs of trainees low so that firms have a strong incentive to incur the costs of training, setting time limits on benefits, and enforcing strict job search tests. In the apprenticeship area, for example, the ratio of apprenticeship pay rates to average earnings in countries like Switzerland and Germany is around 20 percent, far lower than the 50 percent level that is common in New Zealand. Unless governments and employers in New Zealand and Australia are prepared to adopt such measures, unemployment levels will, at best, take a long time to recede.

The message should be clear from what I have said that New Zealand is not a model lesson in structural reform and it is unfortunate, as the former head of Australia's Foreign Affairs and Trade Department stated recently, that its economic policies have become a political football in Australia. This does nothing for relations between the two countries, which the business community in New Zealand wishes to see grow ever closer, although not to the point where the Federal government can override our labour market reforms. That degree of independence is perhaps one benefit of the decision not to join the Federation at the turn of the century. Perhaps if the worst comes to the worst, Western Australia could look again at secession as it did so passionately in 1933!

I hope your new premier's statement that he is not Mr Kennett and that Western Australia is not Victoria means that his government plans to improve on the reforms in Victoria, and in New Zealand, not to handicap this state by merely tinkering, as New Zealand initially did, with a system that is beyond repair. Now that the fundamental changes have been made, the evidence that the Employment Contracts Act has transformed the industrial landscape is overwhelming.

Case studies tell the story better than bare statistics. On his departure recently, the former head of the ANZ Banking Group in New Zealand, Alister Maitland, described the experience of the sawmill operation of one of the bank's customers. After being constrained by award rigidities which benefited neither the firm nor its workers, the mill went on to a piecework basis following the reforms. The operator of a machine producing skirting boards for the Australian market now received 3 cents per linear foot of output rather than an hourly wage. On the first Monday morning under the new arrangement, output was up 70 percent. Unfortunately the reject rate also rose significantly. So a rebate of 30 cents per linear foot was introduced for all rejects (based on the value of the ruined wood). After one month, output was still 50 percent up on the old levels, and the reject rate was actually lower than before the change. As Alister Maitland commented, the stories of improved productivity in response to the incentives and flexibility provided by the Employment Contracts Act are the stuff from which future folklore is going to be made.

At a more general level, a major event last year was the \$566 million investment by the international food company H.J. Heinz in the export oriented manufacturing operation Wattie Foods. This was one of the strongest indicators yet that New Zealand is increasingly being seen as an attractive option for offshore investors. At

the time of the purchase, the chief executive of Heinz, Tony O'Reilly, expressed the view that:

"Rogernomics has catapulted New Zealand into a society transformed. Allowing that sourness exists out there, the fact of the matter is that New Zealand has broken the bonds of the past. I really believe that enterprise is about to enter a decade of dramatic growth in this country."

He went on to say:

"I thought New Zealand was five years ahead of Australia, but because of its particular political process it will take Australia 10 years to go through the necessary catharsis to defy its geographical isolation in the way New Zealand has."

My own assessment would be rather more cautious, remembering an earlier comparison between the tortoise and the hare. Australia has also undertaken many reforms which it can be proud of, and many of its economic fundamentals are in better shape than New Zealand's. We should not let competitive enthusiasms get away on us.

I would sum up the ground I have covered in the following way:

- There are no negative lessons for Australia in the broad set of policies New Zealand is now following. They have brought about a strong economic recovery which looks capable of being sustained with low inflation.
- The fact that we have had a hard time of it is due to a combination of a poor starting point - an economy on the rocks - and a programme that lost its way mid-stream.
- The importance of the labour reforms is impossible to overstate. They are an outstanding success, even though more remains to be done to improve New Zealand's labour market.
- New Zealand still has a lot of reforming to do if it wants to climb back up the international income league and recover a triple A credit rating.

Put simply, there is now a good prospect of 7 good years following the 7 tough ones. The export-led recovery has spread to the domestic sector, with retail sales up by 10.3 percent in the December quarter of 1992, and the economy now appears to be growing at an annual rate of 3-4 percent. But we still have a serious fiscal problem, a high level of public debt and high unemployment. There is still a need for a shake-out of jobs in areas like telecommunications, electricity and public hospitals to achieve world class levels of productivity. Governments at all levels are still spending well over 40 percent of national income, compared with the 30 percent or less that is typical of countries with Asian-style growth rates.

These are formidable challenges. Moreover, we may be about to throw away the advantages of the present political system which Tony O'Reilly mentioned in favour of a move to proportional representation. New Zealand has shown an uncanny

ability to lose its way and snatch defeat from the jaws of victory. The jury will be out for some years yet.