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Annual Dinner

**Rejoining the World
Economic Reform in Australia**

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REJOINING THE WORLD ECONOMIC REFORM IN AUSTRALASIA

I am delighted and honoured to be at this splendid occasion in this magnificent city.

I first got to know Perth well in what now seems like another age, the euphoric days of the America's Cup challenge. Western Australia has had its ups and downs since that time. But it is an ill wind that blows no one any good. One outcome of those turbulent years is that my company is now an Australasian corporate citizen, and I've got to know and love Australia. Australia's economic health and prosperity is now even more important to the company than New Zealand's.

Tonight I have been asked to give you a business perspective of the reforms undertaken in New Zealand. New Zealand and its economy have recently become a topic of interest and debate in Australia, rather than - as was often the case in the past - an object of detached amusement or pity. I suspect that for many Australians the kiwi used to seem an appropriate economic symbol for New Zealand: a bird that was unable to fly, spent most of its time in the dark, could not see very well where it was going, and was in serious danger of not surviving. While that danger is not over yet, survival now looks more likely than it did a decade ago.

I am therefore pleased to talk about the New Zealand reforms, but I want to make three things clear at the outset.

First, while it is true that New Zealand has undertaken some courageous economic reforms, and New Zealanders can take pride in what has been achieved, there is no reason to be smug or complacent. There is still much to be done, and we have a long history of reverting to former addictions rather than kicking the habit permanently.

Second, comparisons of economic reforms undertaken in the two countries by no means all flatter New Zealand. Australia has been for many years a stronger economy overall, and has itself achieved some very creditable reforms over the last decade. The most important of these has been the progress towards eliminating tariffs, a policy accepted by both sides of politics and a major step towards rejoining the world. There is still much that New Zealand can learn from Australia.

Third, the controversy that New Zealand policies have generated in Australian domestic politics is unwarranted and unwelcome. It has regrettably led to some tensions, especially on the Australian side. The fortunes of our two countries are too closely linked for these to be allowed to persist. I hope business and political leaders will act responsibly to defuse them as quickly as possible.

I would add that Prime Minister Keating is entirely correct in making the point that output in Australia has grown faster than in New Zealand since New Zealand began its reforms in earnest in 1984, and that employment in New Zealand has been static whereas the number of jobs in Australia has grown by more than a quarter. By themselves, however, these observations do not tell us a great deal. My purpose this evening will be to try to put them in some kind of useful context for you. I will also offer a few reflections on the political management of change, and the need for

business and public understanding and support, as these are critical ingredients for long-term success.

In summary, the key features of New Zealand's experience that an Australian audience needs to keep in mind are these:

- the starting point for the New Zealand reforms was immeasurably worse than Australia's;
- the reforms initiated by the Labour government in 1984 were bold and wide-ranging, but unfortunately never sufficiently comprehensive and consistent in their execution to constitute a highly successful adjustment programme;
- the Labour government lost its way in its second term, despite being re-elected with an increased majority and a mandate to continue. The ensuing political uncertainty and drift greatly exacerbated and prolonged the recession;
- the present government has addressed to varying degrees the weak features of the programme, with the result that the economy is now 12 months into a recovery and the prospects for sustainable growth are good;
- despite this there is still a good deal of negative sentiment about the changes and a lack of political support which could yet undo much of what has been achieved.

Let me elaborate on these points in a little more detail.

New Zealand's poor long-run performance

New Zealand is one of the smallest OECD economies, and in economic terms in the post-war period - as distinct from the first hundred years after European settlement - it has certainly been the runt of the litter.

By the early 1960s, official reports were already pointing out that New Zealand's rate of productivity growth was the lowest in the OECD. In the next 20 years we fared no better. Our growth performance was the worst of the OECD countries. Australia's was the third worst, but ahead of ours by a considerable margin. Real wages were static in New Zealand for 25 years from 1960, whereas even in Australia they grew by 70 percent. Around 25 years ago the New Zealand dollar bought A\$1.24; by the mid-1980s it was buying less than half that amount.

Through the 1970s and early 1980s, inflation in New Zealand was 50 percent higher than in the economies of our trading partners. New Zealand governments reacted to the oil shocks of the 1970s with policies of borrow and damn the consequences, with the result that internal and external debt mushroomed. Import barriers and a hyper-regulated labour market isolated New Zealand from the rest of the world and led to rising unemployment as the economic stresses intensified. In a final desperate move, the Muldoon government imposed a wage and price freeze which compounded the distortions and precipitated a foreign exchange crisis in the run-up to the 1984

election. Australians have just talked about becoming a banana republic. We went the whole hog.

These were the so-called 'good old days' that some in New Zealand still hanker after. In reality, they were an economic and social disaster. Under regulation and protection, those in privileged positions - unions and business - benefited at the expense of the rest of the community. Politics dominated economic life, and the losers were those who lacked resources and political clout. The social problems multiplied.

The 1984-90 Labour government

The incoming Labour government in 1984 embarked on an ambitious reform programme which, in its conception, was fully in line with the post-1979 OECD consensus that sound economic management should combine policies for macro stability and micro flexibility. It was not some narrowly-based, 'monetarist' programme.

In its first term, the Labour government notched up some very notable achievements.

- A programme for dismantling import licensing controls and reducing tariffs was put in place, and export assistance was largely phased out.
- Financial markets were comprehensively deregulated, exchange controls were removed, and the exchange rate was floated.
- The government moved to fully finance its deficit by bond sales and open market operations, and monetary policy was targeted at reducing inflation.
- A start was made on corporatising state-owned trading enterprises and on other reforms which contributed to efficiency improvements in the public sector, and the financial deficit was reduced from 6.3 percent of GDP in 1984/85 to 1.9 percent in 1987/88.
- A comprehensive reform of the taxation system was implemented, involving broadening the income tax base by removing many tax concessions, lowering personal and company tax rates and introducing a goods and services tax (GST).

Most importantly during this period, the government maintained a strong sense of purpose and direction, and a commitment to putting New Zealand's interests first and resisting interest group lobbying. Although some weaknesses - to which I shall return - were becoming apparent in its programme, confidence was maintained despite the massive adjustments that the farming and manufacturing sectors were experiencing, and the economy continued to record average annual growth of around 2 percent.

I believe the turning point in New Zealand's prospects of achieving a really successful transition to an open, competitive economy came at the end of 1986 when the government baulked on the issue of labour market reform, although things did not really start to come apart publicly until after the 1987 election. At that point, and

despite the fact that the government sought and won a mandate to 'finish the job', the tensions between David Lange and Roger Douglas broke out over social policy in particular. To those on the left of the party, social policy was about throwing more money at problems; to the Douglas camp it was about creating incentives for better delivery of services and getting people off welfare. The results of this stalemate were immensely damaging for the economy and ultimately terminal for the government.

That is not to say that during its second term the Labour government achieved nothing. By the standards of earlier New Zealand governments it did many things that will warrant a mention in the history books.

For example, it put in place and carried through with a programme to halve tariffs, it commenced a programme of privatisation to repay debt, culminating in the sale of Telecom into a fully deregulated telecommunications market, and it passed the Reserve Bank Act giving the bank a mandate for price stability and the independence to achieve it.

But it ran out of resolve, allowing the fiscal deficit to deteriorate massively through 1989-90, ran out of luck as the international economy turned down, and ran out of vision as factions within the party tore it apart. The National opposition, which put forward a programme that addressed the key policy weaknesses, won office at the end of 1990 with a substantial majority.

Economic strategy weaknesses

While much could be said on matters of detail, there were, I believe, three crucial weaknesses in the Labour government's economic strategy as it eventually unfolded. All of them revolved in one way or another around the issue of competitiveness and its consequences for the trading side of the economy.

The first was the failure to match the relatively rapid dismantling of export assistance with the removal of import protection at a similar pace. This penalised export industries and lightly assisted import-competing industries. Anne Krueger of the World Bank warned at the time that the path of the trade regime would adversely influence the path of the real exchange rate, and urged that protection should be cut faster. Although average effective rates of protection are now on a par with Australia at around 15 percent, they are still only falling slowly and very high levels of protection have been maintained on some industries such as cars.

The second flaw was the failure to deregulate the labour market to enable firms to respond to international competition by improving their competitiveness and to enable workers displaced from uncompetitive industries to be more easily absorbed elsewhere. The rigidities of the former system led to an 18 percent increase in wages in the 1985/86 wage 'round', with devastating consequences for competitiveness and unemployment in the following two years. Firms exposed to international competition were caught between a rock and a hard place, unable to reorganise work practices and raise the productivity of their most expensive resource, labour, fast enough. The system created by the Fabian socialist William Pember Reeves, the New Zealand counterpart to Henry Bournes Higgins, proved an abject failure when New Zealand was forced to rejoin the world from which it had tried to isolate itself for most of this century.

The labour market issue is often described as one of sequencing, although in my view that somewhat misses the point. To be sure, it is helpful if relatively rigid markets such as the market for labour are freed up early in a liberalisation programme. But we live in a political not an academic world, and it would have been naive to expect a government that had made a commitment to reintroduce compulsory unionism to move immediately on labour reforms.

The more valid criticism is that even as time went by it hardly moved at all (outside the public sector), with the result that the overall programme became increasingly unbalanced. To my mind the sequencing issue is rather like the question the baby elephant asked its mother: "Do I get up on my front legs or my hind legs?" The answer is that both elephants and economic programmes need to walk on all legs as soon as possible or they won't walk very well at all.

The third crucial weakness was the failure to halt and then reverse the upward trend in government spending. Net expenditure grew from 37 percent of GDP in 1984 to over 42 percent by 1990, cramping the room for private sector expansion. Much of the increased spending was in the social area, but with few apparent benefits in terms of health, education or welfare outcomes. The failure to free up the rigid labour market caused spending on unemployment and other benefits to grow rapidly, and welfare and poverty traps multiplied. Progress in reducing the fiscal deficit was too slow, and came mainly from the revenue side. This also increased the tax burden on the private sector, and the borrowing requirements added to pressure on interest rates and the currency. The failure to move faster with fiscal consolidation contributed to asset price inflation and exacerbated the effects of the sharemarket fall in 1987.

During this period, and despite the fact that inflation was only falling slowly, there were many complaints - including from many in business - about 'scorched earth' policies, and calls for monetary easing and devaluation. At most, these would have brought temporary relief but made the underlying problem worse. The fundamental imbalances had to be tackled, as at least some in the incoming government in 1990 recognised.

The present National government

The present government campaigned on a platform of deregulating the labour market, reducing government spending and reforming New Zealand's welfare state. It also made some foolish promises, for example on tertiary education fees and national superannuation, which were inconsistent with those objectives. This inconsistency has been an important factor in its subsequent unpopularity.

To its credit, however, the National government has by and large done the responsible thing in its period in office.

For a start, it moved quickly on labour reform, bringing in the Employment Contracts Act in May last year. This stripped away all the archaic features of an industrial conciliation and arbitration regime which New Zealand had shared with Australia since the end of last century and introduced a simple regime based on the principle of freedom of association and freedom of contract.

Given the debate which is raging in Australia on this issue, it may be worth making a few points on New Zealand's experience with the new law. In my view it has been an unqualified success and the single greatest breakthrough in the whole reform programme.

- There has been a rapid shift from national industry and occupational awards to more relevant enterprise contracts.
- In the progressive companies there is now far more trust and cooperation between firms and their staff.
- The productivity gains achieved by many firms have been spectacular. They have been a major factor in New Zealand's improving competitive position. One recent study indicates that New Zealand's competitiveness vis-a-vis Australia improved by 36 percent in the 4 years from 1988. When it recently acquired Wattie Foods as part of a strategy to attack Asian markets, Heinz stated that employment and port reforms had made New Zealand 26 percent more cost competitive than Australia.
- Employment is now growing for the first time for several years. The same study also concluded that if the legislation had been in place in 1986, much more capacity in New Zealand industry could have survived, and today's average wage level would have been significantly higher.
- Since the Act came in, average real wages have not fallen; in fact they have increased slightly. Given the recession and high unemployment, this is perhaps surprising - real wages in Japan fell by 6 percent in the past year.
- Unions have not disappeared; 81 percent of employees are still using unions to act for them. The better ones have shown themselves capable of winning membership on the basis of performance rather than compulsion.
- Strike activity is well down, except in the public sector where there is still a lack of contestability for many services.

Some unionists have tried to discredit the Act with claims of exploitation, but as one visiting Australian journalist reported, "few were given me, and they were hardly major or bloodstained." The small number of employers who liked the old protected environment and were apprehensive about the changes have found they could cope after all with freedom. A new breed of managers with skills in people relationships is taking over in larger firms.

One prominent Catholic commentator, John Kennedy, who fiercely criticised the Act, has had the integrity to recognise its benefits, and recently described the Labour party's pledge to repeal it as both "premature and stupid." The official Catholic church also railed against the Act. I see it has recently conceded that Galileo was right and that the earth does in fact revolve around the sun. I hope it will not take

400 years for the church to discover that its stance on labour law was equally mistaken.

I have every confidence that the new framework for employment relationships is a permanent part of our landscape. The key outcome is its contribution to productivity growth, which will allow costs to be kept down while wages rise over time. I would not be surprised if it adds a full percentage point to New Zealand's long-term growth rate. As its benefits become more widely appreciated there is likely to be strong resistance, not least from employees, to any attempt to turn the clock back. Certainly the government is very comfortable with this part of its programme, and a recent survey indicated that 74 percent of employees who have negotiated new contracts were either satisfied or very satisfied with the outcomes. Keep these points in mind when you hear reports from Australian unionists and the ABC about unhappy and fearful New Zealand workers.

The government's other main initiatives have been to address the fiscal problem and to reshape health, education and welfare programmes. An alarming budgetary position has been partially reined in, and there appears to be a firm commitment to reducing government spending as a share of the economy. Nevertheless, government borrowing and debt remain unsustainably high. In health and education, reforms aimed at encouraging competition and consumer choice are being promoted in the face of fierce opposition from unions and other entrenched interests. Cuts to welfare benefits and superannuation have been made to encourage more self-reliance and contribute to the fiscal position, although they have also contributed to the government's unpopularity.

The present economic situation and outlook

In parallel with these actions, the government stood firm on monetary policy and, economically speaking at least, has reaped the rewards for establishing a much more balanced policy mix. Inflation has fallen to well within the 0-2 percent range. With the improved fiscal position taking the pressure off interest rates and the currency, monetary policy has shifted to a neutral stance and both inflationary and wage expectations are consistent with inflation staying low during the recovery.

Output began to grow around the middle of last year, and is now some 3.7 percent up on its trough. In response to the improved competitiveness position, exports are growing strongly, with manufactured exports achieving double digit rates of growth. The current account is roughly in balance. Business profitability is rising sharply, especially in manufacturing, and private investment is expected to grow by 6 to 8 percent over the coming year. Unemployment has been stable in recent months at 10.3 percent of the labour force compared to 11.3 percent at present in Australia, and may be about to turn down.

Overall, most commentators are conservatively estimating that New Zealand is poised to achieve sustainable annual growth of 2.5 to 3 percent, the best outlook for 25 years. The latest economic survey by the investment bank Morgan Stanley has New Zealand with the highest rates of growth and the lowest rates of inflation for both 1992 and 1993 of all the countries in North America, Europe and Asia/Pacific covered in their forecasts.

Recently the World Competitiveness Report ranked New Zealand in first place for government policies conducive to international competitiveness, and found New Zealand executives more supportive of their government's policies than those of any other western nation (Australia came second last on that score). In infrastructure like telecommunications, ports and postal services, New Zealand is now at international standards of efficiency. The main negative in the infrastructure area is education.

One lesson that needs to be learned from all this is that economic reforms take time to bear fruit, especially if the starting point is a heavily distorted and debt-ridden economy and if governments take time off for teabreaks along the way. As a recent report to the Atlantic Council of the United States noted:

"New Zealand has largely accomplished successful economic reform over the past 7 years, while West Germany took about 10 years for its reforms in the last 1940s and 1950s. Spain took 15 years, with most of its accomplishments in the last 7. Chile's reforms took 18 years, partly because of mistakes in the early years and recessions in the mid-1970s and the early 1980s."

It is true that output fell by 2.1 percent in New Zealand in 1991, and has been essentially flat in the last 4 years. But output also fell last year by 2.2 percent in the United Kingdom and 6.1 percent in Finland, and the United States has only recorded average growth of 0.9 percent in the last 4 years. Of course, these experiences bear no comparison with the wrenching adjustments in Eastern Europe and the ex-Soviet Union, where measured output looks likely to fall by up to 50 percent. The changes in New Zealand have been traumatic, but no more so than in other countries which let their economies get badly out of kilter.

Comparisons with Australia

For all the changes, however, it is important to keep in perspective where New Zealand stands relative to Australia. For example, Labour governments in Australia, at least at the federal level, did a far better job of containing government spending during the 1980s than their counterparts in New Zealand. Australia's public debt is much lower than New Zealand's. And despite the recent cuts, payments on social security and welfare in New Zealand are still a substantial burden, accounting for over 13 percent of GDP compared with a 1990 figure for Australia of around 7 percent. Headlines like "Welfare State in Tatters" which greeted the government's announcements rather overstated the position.

For those who like to accentuate differences, it is important from time to time to consider the similarities across countries and across political parties, and to contrast the present position with that of a decade ago. Tim Dodd made what I thought was a lot of sense in a recent article in *The Australian Financial Review* when he pointed out that the coming federal election is hardly a watershed struggle between irreconcilable political ideologies:

"Both parties are clearly for free trade, deregulation, and a smaller role for government in the economy," he wrote. "Both are committed to undoing the protectionism which has dominated Australia's post-war industrialisation. They both want to see more competition in the economy, including the labour market, and they are both in favour of privatisation."

Paul Kelly has made the same point in his recent book. Exactly the same could be said about trends in thinking in New Zealand in the 1980s, and despite dissonant voices there is unlikely to be any turning back. There can be no serious argument about whether New Zealand and Australia had to change. The only relevant argument is over the timing and extent. All New Zealand's experience suggests it is better to change sooner rather than later, not to store up a backlog of adjustment. Countries that accept change, as in Asia, keep on growing; those that don't, as in Europe, appear to be slowly dying.

For this reason, some of the sound and fury being generated at present in Australia does seem odd, viewed through New Zealand eyes. The fearmongering that labour market reform means lower wages and a return to Dickensian England is reminiscent of similar claims in New Zealand two years ago, and looks hollow in the light of our experience. Wages do not rise because of union monopolies and copious amounts of strike action; they rise because of increases in productivity and employers' demand for labour in competitive markets. This point was brought home to me again recently when I learned that Hongkong banks are relocating processing activities to Australia because clerks and tellers are hard to get in Hongkong - they have been bid away to more lucrative jobs.

As I see it, the Coalition's plans for labour relations reform go very much in the right direction. In some ways they are an improvement on New Zealand's policy in that, for example, those who make contracts outside the present system will be subject to the ordinary courts, not a specialist labour court, and anti-competitive behaviour will be subject to the Trade Practices Act. It is a deficiency of our structure that we have maintained a separate Employment Court whose judgments have sometimes been at variance with the contract law philosophy of the Employment Contracts Act, and that contracts for labour services are exempt from the provisions of our Commerce Act.

On the other hand, there are features of the Coalition's policy which seem to reflect a reluctance to embrace a world of free contracting. Preserving a structure from which parties have to opt out may slow the rate of progress towards more productive enterprise arrangements. It is also disappointing that politicians have not been prepared to acknowledge that only markets and skill levels, not legislated 'minimum conditions', determine employment terms. This element of policy seems to be driven by yesterday's vision of how labour markets work.

The fact is that no amount of central regulation can force employers to provide wages, training, superannuation or holidays on terms that are not validated by productivity in competitive markets. Such measures only make things worse, as Aboriginal unemployment in this city goes to show. Politicians in both our countries seem reluctant to face up to the economic reality of what the world will pay for unskilled labour. Alan Kohler put it well recently in *The Business Australian* when he pointed out that:

"Sovereignty in setting wage levels and conditions is being gradually eroded in the same way as it already has been in setting interest rates and exchange rates."

Legislative attempts to deny this reality will only make full employment illegal.

Another curious feature of the Coalition's policy is the proposed statutory requirement to have only one bargaining unit for an enterprise, apparently on the grounds that, say, Ford Australia might have difficulty dealing with both a Greek-speaking union and a Vietnamese union. We used to have this plea for regulation from some of the more poorly managed firms in New Zealand. The government wisely took the view that managers were paid to manage their way through such problems. To my knowledge, none has arisen.

The other major source of sound and fury seems to be the Coalition's plans to bring in a GST. As the procession of Australian visitors studying our experience has discovered, this is a non-issue in New Zealand. The Labour government won the argument by getting out and showing people that, compared with alternatives, a tax mix including GST was a better and fairer system. It seems odd that a tax which has been adopted by most OECD countries, including the Catholic countries of Europe, should arouse such passion among church and welfare lobbies in Australia.

To my mind the most compelling consideration is that countries like New Zealand and Australia need two major tax bases in order to achieve tolerably low tax rates while financing present levels of government expenditure. It is, of course, important that increased taxation of consumption does not become a softer alternative to tackling vested interests and reducing unjustified government spending. This happened in New Zealand in the dying stages of the Labour government. But if such government spending is reduced, more weight could be put on a consumption tax rather than the income tax which is becoming harder and harder to maintain in a world of open capital markets. The arguments that GST is positive for savings and especially positive for exports are also important.

The key to the design of a GST is to have comprehensive coverage and a single rate. Provided these criteria are met and sensible thresholds are established, paperwork is minimised and the tax is not unduly onerous for businesses, including small ones. The business sector was virtually unanimous in 1987 in rejecting the then National opposition's plans to replace GST by a retail sales tax. By that time, the debate had been well and truly settled, and it has not subsequently been a political issue.

Future challenges for Australasia

Beyond labour market and tax reforms, I see a need to maintain the momentum of change in both our countries. This year there has been another loss of momentum in New Zealand. Progress with reducing government deficits and debt has been disappointing, the government seems to have no will to pursue a vigorous privatisation programme, and there are pressures to increase protection on cars, despite the obvious benefits that have accrued to New Zealand consumers and business from freer imports. The gap between its laudable objectives, such as the restoration of a triple A credit rating, and a credible programme to achieve them is growing wider. If this situation persists there is a risk of increasing investment uncertainty and a weakening of the recovery as the general election approaches.

Certainly New Zealand has much further to go to build a genuine market economy that most observers appear to believe. To take just one example of interest to an agricultural state like Western Australia, a recent study commissioned by the New Zealand Business Roundtable on agricultural marketing found that:

"Less than 20 percent of New Zealand's agricultural production can be exported without a licence. This is the tip of a regulatory iceberg involving statutory monopolies, restrictions on entry, institutional oversight of marketing, market access and prices, and many other controls over business."

As one observer commented, so much for the land of deregulation, free markets and level playing fields. Collectivism may be a dead letter in the ex-Soviet Union and Eastern Europe, but it is alive and well in rural New Zealand and not unknown, I believe, in rural Australia.

If New Zealand and Australia keep up the momentum of reform, there are grounds for optimism about the future of both countries. Ten years ago, it was possible for a respected Western Australian to argue that if the date when Australia finally went down the tube could be put back by half a generation, the reformers would not have lived in vain. Today John Hyde is not so pessimistic. I agree with his view that:

"If we have proved anything, we have proved that public opinion can be led by those who are willing to go seriously about the task of leading it. We underestimated the sagacity of ordinary people then, and I think some of us still do."

What are the implications of this statement for economic reformers? I will mention just two.

The importance of political management

The first concerns the implications for politicians. I believe the main task of politicians today is not to devise policies. Unless they are bent on economic sabotage, politicians face policy choices in today's world which are narrow and pretty well established. The main task for politicians is to carry people with them in a process of change. It has been said that the job of a politician is like that of the magpie in Martin Luther's hymn: the magpie gets on the hedge and opens up its beak and sings and sings and sings. So-called ordinary people are neither ordinary nor stupid, but if politicians do not inform the public and explain why change is necessary, people will be fearful and they will resist change.

In the case of communities like New Zealand and Australia which have had to face change on a large scale, and particularly in the case of the older generations, conveying a message about the need for change is not an easy task. It requires an enormous effort of communication, openness, a willingness to argue a case strongly, a readiness to respond to critics and pedlars of snake oil, and a capacity to project a vision and persuade people of the benefits that come from accepting change. The Lange government performed this task brilliantly in its first three years, but it has not been a strong point of the present New Zealand government. Even though it has got everything going for it in the form of an economic recovery, which will improve the national mood as it proceeds, it risks putting its programme in jeopardy if it does not raise its management game.

The role of business leadership

The second implication I would draw from John Hyde's remarks is the importance of business leadership and support for sound policies. Ultimately it falls to business to defend the institutions of a market economy. If business people like you genuinely want an open, competitive Australia with all the benefits that go with it, then I suggest it is incumbent on you, individually and collectively, to stand up and be counted.

In this context it was therefore heart-warming to see Sir Arvi Parbo take the lead he did recently in the debate over the car industry, and to see others in business come out in support of him. Among business organisations in New Zealand, the Business Roundtable, which is the counterpart of the Business Council of Australia, has been the leading advocate of the reform programme, despite the fact that the short-term consequences have been damaging and in some cases fatal for many of its member companies. Today, all other significant business organisations support the present policy directions. Without commitment and risk taking on the part of many in business to challenge the status quo and to put forward a vision of a more successful New Zealand, the reforms would simply not have happened.

In arguing the case for less government control and more individual and commercial freedom, reformers in Australasia are going with the tide of world opinion. As the historian Paul Johnson put it recently:

"New Zealand's shift from state control is part of a larger global movement... Indeed, if ever a theory has been tested and disproved, it is that of the all-powerful, all-benevolent state - a theory that has led in practice to wars great and small, to the death of millions of people and to the scorching of entire economies and environments. Never before has mankind created such an all-consuming monster. In both its totalitarian and social democratic versions, it has proved efficient in nothing except a capacity to squander resources and lives."

There will always be some who hold out in the face of such worldwide evidence. *The Australian Financial Review* noted recently in an editorial that in the event of a loss of office in federal and state elections in Australia, there is likely to be an enormous temptation for some in the labour movement to turn back the clock to the ideology of interventionism, of winner-picking and of interest group cossetting. It is ironic that parties whose political roots lay in the challenge to privilege may end up supporting it, and becoming the real conservatives in Australasian politics.

We are seeing this in New Zealand, with open talk in Labour ranks of a return to a planned economy. There is a rush to conclude that the election of Governor Clinton marks an end to 'Reaganomics' and 'Thatcherism', a conclusion which is blissfully ignorant of the difference between the rhetoric and the reality associated with those particular labels. On many accounts President Bush failed partly because he undid some of the better elements of the Reagan programme, broke his pledge not to raise taxes and imposed new regulations which contributed to the present malaise in the United States economy. Nor should it be forgotten that it was President Carter who ushered in the era of deregulation in the United States and that the Reagan administration was the most protectionist United States administration in the post-war period, presided over the savings and loans crisis, and left the country with a massive deficit and debt problem. And Britain has drifted far from the principles of

Thatcherism, both under Mrs Thatcher and John Major, and has ended up again with an economic migraine.

The reality is that we do not know what economic course a Clinton administration will follow. What we do know is that if, having weaned the Democratic party off big-government liberalism, President Clinton reverts to such policies, the United States economy will continue to flounder. Certainly there is little evidence that policies of low inflation, deregulation, restrictions on the abuse of union power, lower taxes and privatisation are being abandoned elsewhere, still less that there is any economic merit - as opposed to populist appeal - in alternatives.

Taking a lead in introducing a new order of things is a perilous undertaking, as the experience of countless past reformers shows. Certainly it is not easy for people in business; when our opponents run out of arguments, the accusations of self-interest and greed fly freely. It is still possible that electorates in New Zealand and Australia will vote themselves another generation of relative poverty. But if business leaders genuinely put national interests first, they might draw comfort from the words of one true leader, democrat and believer in freedom, Abraham Lincoln:

"I do the very best I know how - the very best I can, and I mean to keep doing so until the end. If the end brings me out all right, what is said about me won't amount to anything. If the end brings me out wrong, ten angels swearing I was right would make no difference."

History tells us the end did not bring Lincoln out wrong, and I believe it will not bring Australasia out wrong if reformers and reforming policies get the support they deserve.