

Canterbury Manufacturers Association

Why Not Simply The Best?

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WHY NOT SIMPLY THE BEST?

Forrest Gump's most famous line was about life being like a box of chocolates. "You never know what you're going to get," he said. That line probably sums up how many New Zealanders are feeling as we approach a general election this year under a new electoral system.

The credit rating agencies and other commentators are making reassuring noises that the new electoral system is not likely to result in a change in New Zealand's general economic direction. I suggest that view is far too complacent. First, the issue is not primarily MMP; it is the policies that future governments will adopt. Secondly, the issue is not only one of direction; it is also whether we are content to rest on our laurels or whether we seize the opportunities to really move into the economic fast lane and deal with the problems the community is still concerned about. And a country is like a company: if it opts to do nothing, it will inevitably slide backwards.

Right now there is much to celebrate. We all know the good statistics on growth, employment, inflation, the budget surplus and debt. The government's current forecasts imply an unbroken expansion of eight years since the economy stopped contracting in 1991; earlier expansions since 1965 lasted an average of 18 months. New Zealand's so-called misery index - the sum of a country's inflation and unemployment rates - is among the lowest in the OECD. In the 20 years to 1991, inflation destroyed 88 percent of the value of the New Zealand dollar; now we have an honest currency. Full employment within the next few years is a real prospect.

In my view New Zealand is now one of the most interesting countries on earth. It is a place with real hope. Australian commentators come here and remark: "I have seen the future and it is New Zealand." For the first time ever, our credit rating has moved ahead of Australia's. Chris Anderson, the new and very able head of TVNZ who was attracted here because of what New Zealand now has to offer, said recently that what struck him about the country was:

Enterprise and vitality. Ten years ago I came to this country and it was like trying to do business in Poland. Today you can get on with it. There's still a great feel for equality and openness and honesty. It's a safe society and many ways a traditional one, but it's also full of excitement and verve.

Our economic progress has been noticed around the world and described by some as the New Zealand economic miracle. But there is nothing miraculous or lucky about it. In the face of fierce opposition every step of the way, all we have done is moved some distance towards a set of sound, time-tested economic policies. The essence of them is a stable, consistent, free-market framework with an essential but limited government role. It is the kind of programme that has brought great rewards to countries such as the United States and Germany in the past and to many East Asian countries today. Commentators have expressed the view that New Zealand's monetary and fiscal framework, its tax system and its labour market arrangements are now among the world's best.

The path New Zealand has followed has not been from left to right in political terms but from heavy state interventionism towards greater economic freedom. OECD governments of all political persuasions have moved in this direction from the late 1970s onwards. There are no exceptions, and indeed the trend goes well beyond the

OECD area. The only sense in which it is relevant to describe these policies as 'New Right' is to distinguish them from the 'Old Wrong' variety.

Given New Zealand's evident economic success and the parallel paths that other countries are following, some commentators have been puzzled that there are still some who cling to 'Old Wrong' beliefs and want to go backwards. For several reasons, however, this should hardly be surprising.

First, a high proportion of the naysayers are older New Zealanders. Many of them spent their lives looking to the state for a living. They have found it hard to come to terms with the fact that the policies they had voted for ran the country into the ground. Younger New Zealanders, whose predecessors used to be socialist missionaries, are far more supportive of current directions.

Secondly, it took a long time for the reforms to bear fruit, partly because they were inconsistently applied through the 1980s. Labour is wrong to claim credit for the recent rating upgrade. Despite all its good work in the 1980s, its lack of fiscal discipline and refusal to tackle labour market reform saw our credit rating still heading south when it left office. It is only since the 1991 reforms established a consistent framework that the economic benefits have come with a rush. Five years is not a long time for attitudes to change.

Thirdly, it's illusory to think that any proposition is so obvious that everybody will sign up to it. There are still people who deny the Holocaust ever happened, and don't believe that a man landed on the moon. The Catholic church refused to believe that the earth went around the sun for 200 years after Copernicus proved it, and the Catholic newspaper *The Tablet* seems likely to take 200 years - if it survives that long - to understand the social benefits of the economic reforms.

No one should expect a universal consensus on economic and political issues. A more useful perspective is to recognise how far we have come. Up to the mid-1980s all our main political parties embraced 'Old Wrong' policies, and perhaps 80 percent of voters supported them. Today that figure has shrunk to perhaps 20 percent. That is a striking and heartening shift. But it is still 20 percent too many, especially under MMP, if New Zealand is to avoid the risks of stalling or going backwards, and to go forward instead.

I should make it clear that I am not thinking in party-political terms here. We can see elements of 'Old Wrong' ideas to varying degrees in all political parties. British Labour Party leader Tony Blair is having to confront the same attitudes in his efforts to modernise British Labour: the deep distrust of a market system; the misunderstanding and hatred of the profit motive; the wariness of commercial competition; the class anger; the instinctive belief that business is best organised by the state; and the urge to take and redistribute money.

One by one, various 'Old Wrong' myths have been demolished in recent years. The list is a long one: that the policies would never produce a recovery; that manufacturing would be decimated by moves to free up imports; that growth with low inflation was impossible; that the recovery would be a jobless one; that freeing up the labour market would drive down wages; that businesses were not paying their share of tax; that wages would blow out without an incomes policy; and so on. The credibility of those who peddled such myths has suffered and the credibility of those who rejected them has been enhanced.

However, particularly in politics, myths and mythmakers are never in short supply. This year it will be incumbent on all of us in business who want to see New Zealand go forward to deal with them carefully and objectively. Let me give some examples of persisting 'Old Wrong' myths.

The first is the preposterous notion that New Zealand simply hasn't made progress since 1984. A recent proponent of this view is failed British Labour politician and 'Old Wrong' standardbearer Bryan Gould, now at the University of Waikato. In a recent column, Gould had the audacity to claim that:

We are now more or less back, in terms of output ... to where we would have been if we had never been thrown over the cliff in the first place.

The fact is that within the next 12 months or so, the economy will have grown by over 30 percent - will be nearly one third larger - compared with 1984. Yet Gould tells us that growth in the period has been close to zero. If this is not a case of blatant dishonesty it is certainly a case of gross academic incompetence.

Equally dishonest is the claim that the reforms have been 'all about money', not social benefits. The facts are that by the end of this year well over 200,000 new jobs will have been created since 1991; spending on health, education and social welfare is up by over \$2 billion; many more New Zealanders are extending their education; wages are rising where skills are becoming scarce; lower tariffs mean affordable cars and cheaper goods in the shops; the higher exchange rate means an effective wage rise for all consumers; and low and middle income earners will soon benefit from large tax reductions. The idea that these don't constitute large and widely shared benefits is patently absurd.

A related claim is that there has been an increase in income disparities in New Zealand since 1984. The evidence on this point is becoming clearer, and it is not comforting to those who like to make it. The picture appears to be that there was an increase in the income gap in the second half of the 1980s, primarily because of the growth in unemployment. In turn, this was largely due to the failure of the Labour government to reform the labour market. By contrast, since the 1991 reforms were implemented, job growth has been spectacular and unemployment has plummeted, and it appears the widening of the income gap has been arrested. Even more important than this static comparison, the incentives and opportunities for people to increase their earnings are now greatly improved, and we are seeing much more upward income mobility. In other words, those who label present policies as 'uncaring' and 'lacking a social conscience' are on exactly the wrong side of the argument: it is the present government rather than its critics which has produced results instead of just rhetoric.

Some of those like Steve Maharey who have found it hard to deny the importance of the growth in jobs have tried to create a myth of an oppressed, 'casualised', part-time work force, lacking job security. Fabian intellectuals have always sneered at people toiling in 'dead-end' jobs to better their lot or that of their families. But this myth has also been destroyed. For a start, part-time jobs are a highly desirable option for some, especially some women, and can be an important stepping stone to full-time work. In any event, full-time work has been growing even faster than part-time work. The recent Employers Federation survey also gave the lie to such accounts: it found that the overwhelming majority of workers were satisfied with their terms of employment and their job security. It should indeed be obvious that most jobs are far more secure today than during the period of decline and restructuring.

Another persistent myth is that New Zealand has suffered a loss of 'national sovereignty' with the reforms. The usual evidence presented is the sale of some state assets. Apart from the fact that most of these were non-performing, at least initially, the point that is missed is that the Crown's net asset position is stronger today than at any time since measurements began. In 1991 the public of New Zealand, through the Crown, 'enjoyed' a negative net worth position of over \$10 billion. Every New Zealander 'owned' a public liability, not an asset. This year net worth has become positive and is projected to increase to over \$15 billion by 1998/99. And in a broader sense it is abundantly clear that the progress towards an internationally competitive economy, with net foreign-currency public debt set to be eliminated within the next year, has enabled New Zealand to regain the control over its destiny which it was at dire risk of losing to the IMF in 1984.

A final example of a myth that needs to be demolished is the notion that corruption and a decline in business ethics have been associated with the moves to a more open economy. It must have been a disappointment to this particular group of mythmakers who have tried to sully New Zealand's business reputation for their own ends that a recent international study found New Zealand to have the least corrupt business environment of 41 countries surveyed. In my view Reg Birchfield of *Management* magazine is correct in saying that "the winebox enquiry notwithstanding, New Zealand business is generally more ethical than it was just five or so years ago." Less government and more open and competitive markets are by far the best answers to problems of corruption.

These points and many others will need to be made in the months ahead to rebut the arguments of those who would take us back to 'Old Wrong' policies. Business should also do what it can to warn the community of the consequences of adopting such policies in today's world. A variant of the sovereignty argument is that important decisions concerning New Zealand are said to be taken on Wall Street not in Wellington. This demonstrates a fundamental misunderstanding of how capital markets work. New Zealand is just as free today to borrow extravagantly, debase our currency or prop up uncompetitive industries as we were prior to 1984. The difference is that the consequences of adopting misguided policies rebound on a country almost instantaneously. As Lawrence Summers, deputy secretary at the US Treasury has put it:

One of the most foolish things said about the international economy these days is that because capital moves so quickly and so freely, government policies have little influence. In reality, precisely because of greatly increased capital mobility, the difference between having the right and wrong government policies has never been greater. ... And just as good policies are rewarded more richly than before, mistaken policies are punished more severely.

For these reasons, financial markets do not pose a threat to democracy: indeed, because they are driven by the decisions of millions of investors and borrowers, they act like a rolling 24-hour opinion poll. Why anyone should object to that scrutiny and want to conceal the truth about political and economic decision making is difficult to understand.

There are two further points to be made to those who want to turn the clock back. One is that it won't be the so-called gnomes of Wall Street or Zurich who will pull the plug first if things go off course; it will be New Zealand institutions and corporates. They will be the first to realise what is happening, and they will be obliged to react in

the interests of their shareholders and policyholders. This is borne out by Mexico's experience in 1994: domestic investors panicked first; foreigners merely followed.

Second, if this happens, those most affected will not be better-off people, who will at least have some ability to protect their position. The worst hit will be the most vulnerable. North Korea and Cuba demonstrate that the result of a government making a choice to seal its country off from the world is poverty - and ultimately tyranny.

So business and others should warn against making false moves, but in the end we can only warn: it is the democratic verdict that should prevail. We have to be aware, as Kipling would have put it, that there is a chance that the "burned Fool's bandaged finger [will go] wobbling back to the Fire", and we must make our business decisions accordingly. What we do know is that the economic penalties would come thick and fast, and that in all probability the electorate would soon want to beat a hasty retreat. But the world would not treat us kindly for having screwed up a second time. We would be written off as incurably third-rate and muddleheaded. The price of such a loss of credibility would be a higher risk premium and weaker investment and job creation for years. It would be a cruel irony, now that the pain has turned to gain, for New Zealand to go through the wringer once more. But if that is the verdict, so be it.

It would, however, be doubly ironic because New Zealand now has the chance to do the opposite: to build on its outstanding achievements and do better yet. None of us should be content to rest easy with unemployment at 6 percent and many people still struggling. All of us want to see New Zealand become a high wage, high employment, socially cohesive country. Business will be better off in that environment - the world's most successful companies are based in high wage economies and strong democracies - but, more importantly, so will New Zealanders. The only way to achieve such a vision is to push forward with reform. Paul Keating once made the point well, though regrettably he has failed to heed his own words:

I wish I could say all the reform was over and that we don't need to change any more. But we do. We need the culture of continuous initiative. If we are to keep up, we need to continuously improve.

Likewise, the *Christchurch Press* recently pointed out that life in post-recovery New Zealand is not going to be easy, and that there will be no end point and no time when it will be possible to let up.

Some businesses, my own included, have been learning that lesson in recent months through the effect of a strong New Zealand dollar. Part of the response to that must be businesses' own responsibility, through never-ending efforts to improve our own efficiency and wage decisions which recognise the gains to workers already embedded in the exchange rate. Certainly the last thing we should do is fall back to thinking that the answer lies in a little more inflation and a softer currency. But the government must play its part too. We should remember instead that, as Ruth Richardson used to put it, "monetary policy needs mates", especially discipline in government spending which seems to have become a lot weaker. And we should be urging the government and other political parties to press on with a range of measures such as privatisation, tariff reductions, deregulation of producer boards, initiatives to reduce regulatory burdens, local government reform and the introduction of competition into accident compensation and other social services, all of which would help our efficient internationally competing industries.

Together with the Auckland and Wellington chambers of commerce, the Business Roundtable is releasing next month a report, *Moving into the Fast Lane*, which sets out a more ambitious vision for New Zealand and an agenda for achieving it. Much of it involves a continuing application of the successful privatisation, deregulation and tax reform policies of the last 12 years. There is abundant evidence that privatisation works for consumers and the economy, and it is continuing to gather pace around the world. New Zealand's telecommunications infrastructure received top ranking in the latest World Competitiveness Report, and privatisation needs to be extended to other infrastructural activities.

Similarly tax reductions need to be pursued, with the accent on lowering and flattening the overall income tax scale since it is incentives at the margin, not handouts, that matter for economic growth. By contrast, increases in government spending and taxing are extremely costly: economists at the National Bank estimated last year that the Alliance's spending programme would cut national income by \$1.5 billion annually by weakening incentives for productive effort. New Zealand was given a high overall ranking - in fourth place behind Hong Kong, Singapore and Bahrain - in the 1996 Index of Economic Freedom, but a relatively low score on taxation, being classed as a high tax country.

Most importantly of all, we need to push forward in the social area, which remains the major source of community dissatisfaction. The common features of accident compensation, health and education are that they are monopoly or quasi-monopoly services and that they are mainly run by the public sector. A business coalition is calling for choice in accident compensation; Professor David Stewart, formerly Dean of the Otago Medical School, has recently urged greater competition and private provision in health; and there is a pressing need for education to be opened up to competition and freed of the domination of the teacher unions. Good teachers should be paid more, in some cases much more, but on the basis of their performance in a competitive environment. All these vital services need the disciplines of market forces just as manufacturing did.

Similarly, there has to be a fundamental rethinking of welfare policies in New Zealand, of the kind that is now going on around the world. Contrary to the belief that welfare spending has been cut, we are spending a higher proportion of national income on welfare than we were 10 years ago. But more spending is creating more problems, not fewer. The basic argument against welfare in its present form is not that it wastes money, but that it wastes people. It destroys families and blights hope. So the main impetus behind welfare reform is not fiscal; it is moral. State welfare is impersonal and bureaucratic and it does not work. Research which the Business Roundtable has supported and which will be released shortly argues that a large part of the responsibility for welfare must be handed back to civil society.

There is no reason why New Zealand cannot continue to change and make progress in these areas under MMP. With the greater transparency in government, the openness of the economy and institutions such as the Reserve Bank of New Zealand Act 1989 and the Fiscal Responsibility Act 1994, New Zealand is better placed to maintain a coherent economic strategy. The difference MMP will make, I believe, is that it will require the involvement of a broader section of the community to achieve change. As the historian Paul Johnson, a recent visitor to the country, has put it:

Most men and women do not choose to devote much time or effort to political matters - they have more interesting or worthwhile occupations. But the indifference of the majority opens wide the door of power to dedicated

minorities, who give the pursuit of political power absolute priority in their lives.

To guard against such dangers and to support governments that may be less well placed to exercise leadership under MMP, wider constituencies, not least the business community, will have to play their part. Too often other business organisations have been happy to see the Business Roundtable take the flak and to creep along behind. Today all have signed up to the current framework, but it is still the case that few are prepared to share the role of challenging the country to extend it. Frankly, in the new environment that won't be good enough. Politicians are not going to do much unless there is vocal and visible and broadly-based insistence that they act. The undeniable economic success has given the advocates of the economic reforms the high ground, but it will have to be defended. And if the agenda of social problems is not addressed they will have a corrosive effect on everything that has been achieved.

I began by saying that we don't know what we'll get in this election year, and I suggest the stakes are very high. New Zealanders could, at least for a time, opt to return to our 'Old Wrong' ways. Alternatively, we could really move into the fast lane and build a world class economy and a successful, inclusive society. If we could move the performance of our health, welfare and education systems up to the level of the rest of the economy, we would be well on the way to doing so. I hope that the choice for you as business people is an obvious one and that you will actively promote it. Why not simply the best for New Zealand? As Forrest Gump might say: "We'll never know what we can be unless we go for it."