

**Wanganui Rotary Club**

**Social Policy:  
The Challenges Ahead**

**Bob Matthew  
VICE-CHAIRMAN  
NEW ZEALAND BUSINESS ROUNDTABLE**

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## **SOCIAL POLICY: THE CHALLENGES AHEAD**

I very much appreciate the invitation to speak to you today and in turn I want to invite you to reflect on some national challenges. None of us in business is content to rest on our past achievements, and nor should any other sector of the community. The proposition that I intend to put to you today is that we need to replace any sense of complacency about what has been achieved so far with a sense of dissatisfaction that more is not being done to address outstanding problems. Many of these, I will suggest, lie in the social rather than the economic domain.

Certainly we have started another year with the economy in good shape. After the difficult years of restructuring, the economy finally turned around in 1991. We have not looked back since. Over the last four years New Zealand has enjoyed one of the fastest rates of growth of any country in the OECD, and has grown much faster than it did in any sustained period during the seventies and eighties. We have seen a big fall in unemployment, giving us the fourth lowest unemployment rate in the OECD. Those of us who believed the labour market reforms in particular were the key to job creation and getting unemployment down have been amply vindicated. Commentators who argue that only the rich have profited from the reforms are simply deluding themselves. If 187,000 new jobs, \$2 billion in new social spending, and now big tax cuts for low and middle income New Zealanders do not represent widely spread benefits, I am at a total loss to know what possibly could.

The progress we have made has just been recognised by a second upgrade in New Zealand's credit rating. For the first time in a generation the government is running budget surpluses. Back in 1984, when the economic reforms commenced, the government accounts were in deficit to the tune of 6.5 percent of our entire national output. This year the government expects its revenue to exceed its spending by over \$3 billion dollars, and even bigger surpluses are expected in future years. This is despite substantial increases in social spending over the last two years and a planned \$3 billion programme of tax cuts.

New Zealand's economic policies are no longer a bad joke and an embarrassment abroad, as they once were. The British magazine *The Economist* has said that our macroeconomic framework is probably the best of any country in the world. In the latest World Competitiveness Report, New Zealand scored eighth out of all countries for overall competitiveness. The Heritage Foundation, an American think tank, recently ranked New Zealand as having the fourth freest economy in the world. And it will surprise some people who give credence to various populist conspiracy theories to learn that Transparency International, a German anti-corruption organisation, has recently named New Zealand as the least corrupt country out of the 41 countries it surveyed.

The role of the reforms in transforming our economy is now beyond doubt. While many in the business community were strongly opposed to them in their early stages, hardly anyone in business today would want to return to the pre-1984 economy. Even among the general public there is little sentiment for going back.

We should not, of course, lose our sense of perspective about the better outlook. Our economic renaissance has not come about like a spell of fine weather. It has happened because we abandoned failed policies and replaced them with sound ones. Changes to key elements of the new policy framework - such as the Reserve Bank of New Zealand Act 1989, the Fiscal Responsibility Act 1994 or the Employment Contracts Act

1991 - would put the gains severely at risk. Most business people are only too aware of that risk. Yet some of our political parties are proposing changes to key policies. It is imperative that those of us who appreciate the link between our current policy framework and the very good outcomes for New Zealanders continue to impress on our elected representatives the importance of retaining and strengthening that framework.

Moreover, there are risks of losing ground even without such reversals. Monetary policy must remain firm to keep inflation in check. However, if internationally competing industries are not to be squeezed in the process, monetary policy needs allies in the fight. At present it is lacking its most important ally, namely a tight rein on government spending. New spending commitments over the past year amount to no less than a billion dollars a year, which represents one of the largest surges in real expenditure growth by any recent New Zealand government. If this growth is not rapidly checked, we risk killing the goose that laid the golden egg.

Nor should New Zealand be standing still. There is much more we can do to boost our growth prospects. The Business Roundtable has repeatedly urged the government to push the liberalisation programme into areas it has not so far reached. The government should be moving to privatise those businesses that still remain in government hands. It should be extending the logic of market forces and deregulation to our producer boards, which are currently monopolists shielded from competition or statutory authorities with the power to interfere with what should be private business decisions. And if the government wishes to see lower unemployment, it should be further increasing the flexibility of our labour market by addressing barriers to job creation such as the bizarre rulings of the Employment Court and the statutory minimum wage.

But the most challenging agenda for the government and all other political parties lies elsewhere, in those areas that might broadly be grouped under the heading 'social policy.' Because of its importance, social policy is an area where the Business Roundtable has been investing an increasingly large amount of effort. With the economy operating so successfully, a range of social policy issues have become more prominent in public debate. Our headlines are dominated by issues like crime, access to health services, the proper treatment of the mentally ill, the condition of many of our state schools, and the large number of New Zealanders who remain on welfare benefits or in some other way are 'outside' the recovery. Some of these problems do not appear to be getting better.

The economic upturn has thrown our social problems into much greater relief as problems in their own right. During the Muldoon years and the early period of the economic reforms, there was a tendency to pass off many of our poor social indicators - such as the rising crime rate - as a symptom of 'economic deprivation'. This was always a lazy assumption to make, and utterly unhistorical. For instance, during the depression of the 1930s crime actually fell in many countries, including New Zealand. Crime also rose rapidly in the 1960s - not normally considered a decade of deprivation. Nonetheless, the sophism that crime is all about poverty was frequently repeated by commentators. Today such a position looks even less convincing than it ever did.

Another social indicator that often used to be blamed on economic causes is the number of people on the domestic purposes benefit (DPB). The number of DPB recipients rose steadily during the Muldoon era and through the 1980s. In 1975 there were 17,000 people on the DPB; this year the number is forecast to average 107,000. It

used to be argued that many of those on the DPB wanted to work, but were prevented from doing so by economic conditions. Yet today, when we have solid economic growth and one of the freest and most open labour markets in the OECD, the numbers on the DPB are still rising. Meanwhile, the period since the introduction of the DPB has seen an alarming increase in family breakdown. Roughly one quarter of all families with children are now headed by a sole parent. Two out every five new births today are ex-nuptial. Among Maori these trends are even worse. Serious social changes are taking place that demand to be evaluated in their own right - not glibly dismissed as being the result of 'uncaring' economic policy.

A research study which the Business Roundtable has supported and which will be released soon looks at New Zealand's current welfare state. The author is David Green of the Institute of Economic Affairs in London. It is a world-class treatment of the issues facing all the advanced welfare states and deserves to be widely read. The great merit of Green's treatment is that it starts from philosophical first principles, and asks the question: 'what kind of society do we really want?'

Green believes in a 'civic' society of freely cooperating individuals. He takes pains to refute the view that free markets encourage selfish or amoral behaviour. Indeed, he argues that markets cannot function properly without sound and shared ethical norms, nurtured in the family. To Green, having personal freedom does not imply a highly individualistic, dog-eat-dog society. It implies a community where people cooperate for their mutual benefit, and are prepared to make sacrifices for the common good. We can recognise many features of such a society in the era before welfare states developed, or in Asia today.

According to Green, the welfare state significantly detracts from the richness of a civic community based on mutual respect. It turns the political process into a scramble to capture benefits paid for by others. The welfare state also tends to deliver benefits as of 'right'. This can often lead to a serious loss of personal responsibility. It can also deprive life of much of its meaning by detracting from people's status as moral, thinking beings.

These are enormously important issues. Green goes on in his book to look specifically at the New Zealand welfare state in the areas of income support, health, education and pensions. His recommendations ought to provoke wide discussion. There will no doubt be dismissive reactions from some predictable quarters when the study comes out. I well recall the hysterical outburst of the president of the primary teachers' union a few years ago to a study of ours on education:

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

The reaction was ridiculous at the time and looks even sillier today. I am confident that many readers will find the Green study a penetrating analysis of what has gone wrong with our welfare state, and what needs to be done to put it right.

There is also widespread dissatisfaction with our health, accident compensation and education services. It persists despite substantial injections of extra spending and higher levies. This should suggest that, instead of simply calling for more taxpayers' money to be spent by the government on health and education, we ought to be thinking much harder about the institutional structures that would produce better

outcomes. The common feature of all these services is that they are largely supplied by the government and they face little competition from alternative providers. Given the evident success of moves to introduce competition into other services and to expand the role of the private sector, the way forward in all three areas is fairly obvious.

This morning a very broadly based group of business organisations launched a campaign to introduce choice and competition into the provision of accident compensation. There is now almost universal dissatisfaction with our state monopoly scheme. In the last 10 years ACC expenditures have risen by an average of 17 percent annually, and the scheme is already unfunded by at least \$5 billion - and probably much more than that. I am optimistic that opening up the accident insurance market and allowing competition with ACC is an idea whose time has come. This has got nothing to do with the right to sue, which is an entirely separate issue. The latest levy increase of 20 percent which is about to hit employers - or more accurately workers and those seeking jobs - was the last straw. The Woodhouse model was constructed on totally flawed premises and no other country has been foolish enough to follow in our footsteps. The coalition of business organisations is calling for a fundamental examination, by an independent expert group, of options for moving to competitive insurance cover.

In education, the basic problem is again the monolithic, one-size-fits-all, state system. It is a sector which is heavily dominated by state sector unions and has been repeatedly captured by activists with a social and/or political agenda. There is a strong case for greater diversity and parental choice.

The Business Roundtable and the wider public want exactly the same thing in education - a system that provides a high quality education to all young New Zealanders, irrespective of family income level. We have been keen to work with like-minded education professionals. Hence our involvement in the Education Forum, a group which was established to provide a counterweight to some of the more worrying trends in state education. Both organisations have supported the shift to bulk-funding of school budgets, and have argued that greater flexibility and autonomy should be given to principals and school boards. This should be extended by moves to fund all schools - state and independent - on an equal basis according to parents' decisions on where they choose to enrol their children.

The Education Forum has also undertaken critical evaluations of many elements of the emerging qualifications framework and the national curriculum, some of which - like the draft social studies curriculum - are a veritable chamber of horrors. It is pleasing that the minister of education has stopped this last initiative in its tracks, but a huge job lies ahead to repair the damage caused by misguided educational philosophies.

Criminal justice is another area where the Business Roundtable will soon be making a contribution to the public policy debate. Virtually all types of crime have risen substantially over the past generation, and violent crime has increased even more rapidly than crime in general. The social costs of our current crime levels are extremely high. They go well beyond the actual incidents of crime - bad as those are - to include the increased fear and insecurity in the community which inevitably accompany high crime rates.

Crime prevention and penal policies tend to be largely designed by criminologists. Criminologists typically play down the role of detection, conviction and penalties in

detering crime. Instead, they generally believe that there are special factors - usually outside the control of the individual - that make for criminal offending. This has led to a search to identify those special factors, and to a long series of briefly fashionable and then discarded theories. Crime has been postulated to be caused by genetic factors, unemployment, poverty, psychological problems, dysfunctional families, or that nebulous phenomenon, 'alienation' from society. Whatever the insights criminologists might bring to crime, their tendency to de-emphasise moral and legal constraints and to treat people as passive victims of external forces has led, in my view, to unfortunate trends in policy.

Economists who work in the field of crime take a different approach to that of criminologists. Their starting assumption is that most people are rational in their behaviour most of the time. If they are rational, people will weigh up the likely costs of committing a crime. Among the most important costs faced by criminals are the probability of detection and conviction and the penalty they expect to receive. No one argues that criminals do long pages of calculations to work out these probabilities. But this analysis suggests that less crime would be committed if the probability of detection and conviction increased, other things being equal. Crime would also be reduced if penalties were made more certain or severe. These conclusions correspond much more closely to the instincts of the ordinary person than do the theories of criminologists. The Business Roundtable will soon be releasing a report which puts forward this alternative set of perspectives on crime - not as a universal explanation of criminal offending but as an important rationale that is too often overlooked. It also recommends initiatives that would make our penal system less costly on the taxpayer.

Social policy problems such as access to health and education, crime, dependency and family breakdown will not quickly disappear. Virtually all western countries are grappling with them. The evidence is now clear that the welfare policies pursued over the last 30 years have made many of the problems worse. President Clinton has described the current task as being "to end welfare as we know it." This debate is now well under way in the United States, Britain and elsewhere, but the issues have not yet been squarely addressed in New Zealand. It behoves all of us to study and debate them in the same way that our economic problems have been addressed, and to work for as large a turnaround in our social indicators as New Zealand has already achieved in its economic statistics.