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**AUCKLAND REGIONAL CHAMBER OF COMMERCE AND
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CREDIBILITY PROMISES

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CREDIBILITY PROMISES

President Bill Clinton, it is said, can speak for days without inhaling, and is capable of holding sincerely, sometimes for minutes on end, exactly the same views as whatever group he is standing in front of. The columnist Dave Barry has even suggested that if Bill is put in front of a group of trees, given enough time he will engage in photosynthesis.

Dave Barry's comment reflects the cynicism about contemporary politics that many voters around the world have come to feel. The romance of politics has faded, as governments have over-reached their capacity to do good. Faith springs eternal that politicians can make better decisions on behalf of ordinary people than they can themselves, but reality is sinking in with voters. Even President Clinton, a Democrat, has acknowledged that the era of big government is over.

Cynicism about politics in New Zealand seems likely to have gone up a further notch with the MMP election and the wheeling and dealing to form a coalition government which followed it. Those who voted for MMP in the belief that it would put an end to broken political promises have seen promises abandoned by all parties to the coalition negotiations. Those who thought a cloud of pixie dust would descend and transform the behaviour of politicians have seen new levels of rancour and vulgarity in parliament. Pam Corkery has demonstrated an ability to single-handedly lower its tone. After last week's kerfuffle, fisticuffs in the chamber, as in Italy, may not be far away. Welcome to the world of MMP.

None of this should be a matter of any surprise. As the critics of MMP pointed out, it is a system that institutionalises promise-breaking. Moreover, no party now feels an obligation to govern in the interests of the whole community - the name of the MMP game is for a party to pursue its own self-interest. The policies of a party gaining a minor share of the vote can be imposed on the whole community.

What matters is that we draw the right lessons from this experience. One is that if we want less cynicism and disappointment we should rely less on the political process to make decisions on things (like health and education) affecting people's daily lives, and give them more power to make their own

choices. Under MMP, voters have less control than ever over politicians. Another is that we should keep MMP under review, and change it if it fails to produce effective government. Thirdly - and this is the theme of my remarks today - we should do everything we can to insist that governing parties deliver on the 'big picture' commitments that they have made to the electorate.

I understand that a new term entered the political vocabulary in the process of forming the new government. The term is 'credibility promises', and it refers to those commitments which a party feels bound to adhere to at all costs. For New Zealand First, for example, it seems that 'credibility promises' included scrapping the superannuation surcharge and abandoning the fiscal envelope for treaty settlements.

Whatever one might think of the weight placed by a party on preserving a specific item of policy, that does not constitute the big picture. What is of prime importance is not the particular nuts and bolts of a government's programme but the overall framework. Only a sound, consistent framework, and continuous improvements to it, will allow New Zealand to become a high productivity, high income, and high employment economy. These, rather than specific benefits to the elderly, Maori or other groups, are surely the overriding goals.

Under the coalition agreement the government is committed to maintaining and improving the present economic framework. The document includes commitments to achieve high sustainable growth rates; a strong, open and internationally competitive economy; more employment and less welfare; and a world class system of education. These are the kind of goals that really matter for the well-being of the community - they genuinely amount to putting New Zealand's overall interests first. They should, I suggest, be regarded as the core 'credibility promises' which we in the business community and the public at large should hold the coalition parties accountable for achieving.

Of course, some politicians may regard such commitments as glib statements of general purpose which are not meant to be taken seriously as a litmus test of a government's performance. But if we want to restore politics in New Zealand to a more healthy state, we should reject such cynical attitudes. Unless politicians in government back their visions with action, they deserve to maintain their rock-bottom standing in public esteem.

In the case of economic growth, for example, both coalition parties have been quite specific as to their commitments. National is committed to the goal of 3.5 - 5 percent average annual growth to the year 2010. NZ First argued for a faster rise in living standards, and committed itself to a goal of 6 percent growth by the end of its first parliamentary term. These are clear, achievable and measurable goals which we in the business community applaud, and we should insist that the government develops policies to achieve them.

What is the probability of achieving sustainable growth rates at even the bottom of this range on present policies? The answer is close to zero. Economic growth has in fact fallen below 3.5 percent over the past year. In its briefing to the incoming government, the Treasury forecast that on current policy settings growth will average only 3.2 percent over the four years to 2000. The minister of finance recently told a conference of tax specialists that the consensus view in a survey of economists was for an average medium-term growth rate of 3 percent. Given the shortfall from his party's commitment, the question he should have been asked was: 'What are you going to do about it?' And the question the Treasurer should be asked is: 'How are you going to achieve average growth of 6 percent, double the current projected level?'

The government cannot plead that it has committed itself to unrealistic targets. It has inherited a sound economy. The world economic outlook is benign. There is still a large productivity and wealth gap to be bridged between New Zealand and the leading economies. Today policies for improving economic performance are well known and hardly controversial. As the report jointly released this time last year by the Business Roundtable and the Auckland and Wellington regional chambers of commerce argued, New Zealand is certainly capable of moving into the fast lane.

The outcomes of the general election and the coalition negotiations were not bad news from the point of view of improving economic performance. Even though the previous government's campaign was half-hearted and lacked vision, the electorate voted to maintain the economic directions of recent years. The myth that the reforms lack democratic legitimacy has been disposed of. The coalition agreement has preserved the key elements of the economic framework - the Reserve Bank Act, the Fiscal Responsibility Act, the Employment Contracts Act and the open economy.

But the coalition agreement is not good news either. Its worst feature from the perspective of achieving faster growth is the massive projected increase in low quality government spending. Government spending in 1997/98 will be nearly \$3 billion dollars higher than was projected in June 1995, less than two years ago, and a further \$4 billion is scheduled in the following two years. These are enormous sums. We have not seen such fiscal extravagance since the Kirk/Rowling and Muldoon eras. It has put pressure on monetary policy, discouraged investment and impaired the performance of the export sector which is vital to overall economic growth. It has limited the potential for tax reductions which, as the minister of finance correctly argued at the tax conference, are a positive factor for growth. Ever-increasing government spending was New Zealand's Achilles' heel during the 1970s and 1980s. Despite repeated warnings over the last two years, the government seems determined once again to kill the goose that has been laying the golden eggs.

Thus the government's first decisions as set out in the coalition agreement will do nothing to help achieve its growth objectives - indeed their overall effect will be negative. It follows that in order to keep this most important of its 'credibility promises', further policy instalments are urgently needed. This year's Budget is the next opportunity to make significant moves.

There have been some signs that the government realises it has work to do. The Treasurer has been stressing the need for tough fiscal decisions, if only to offset new spending commitments. As yet we haven't seen them: last week's Budget Policy Statement revealed that the razor gang rhetoric has so far produced nothing at all by way of spending cuts. Ministers have been assuring the business community that the government has no intention of allowing the economic gains to be eroded. It will have to give the same assurances to international investors - and, more particularly, to back them with action. *The Wall Street Journal* recently noted that the slowdown in economic restructuring in New Zealand will make investors wary, and others have commented that New Zealand now looks less attractive as an investment destination given that other countries are pressing on with economic reforms.

The Wall Street Journal spoke of New Zealand's "new wild-card Treasurer", but I suggest that judgment is premature. Political reputations are not enhanced by demonstrating economic incompetence. Mr Peters would not have sought the Treasurer's position lightly: we must assume he is serious about benchmarking New Zealand's economic performance with that of the Asian tigers and lifting

living standards on a sustainable basis. From the time of his maiden speech in parliament, many of Mr Peters' economic instincts have been sound and in tune with free-market thinking. Some of NZ First's economic ideas were plainly muddled and, to the party's credit, they were dropped in the coalition negotiations. However, its positions on foreign ownership, privatisation and compulsory savings, as well as government spending, remain obstacles to economic growth. The business community also remains critical of the fact that Mr Peters has still not acknowledged that he wrongly tarnished the image of New Zealand business at large with baseless accusations about improper political influence, as has been confirmed by a court of law. These arguments may continue, but we should go forward with an open mind and assume that Mr Peters sees the goal of achieving 6 percent growth as one of his key 'credibility promises'.

Some parts of the coalition agreement should reinforce that commitment. The 'credibility promise' of achieving a fully open economy, for example, is inconsistent with maintaining import tariffs, as well as the outmoded producer board controls which affect around 44 percent of New Zealand's total goods exports. Similarly, no one would pretend that New Zealand has a world class education system: while we have generally ranked high in recent surveys of international competitiveness, we have received a low score for education. The commitments in these areas are welcome. So too is the obvious intention to curb the judicial activism of the courts in administering the Employment Contracts Act and making it more difficult for firms to create jobs.

Other parts of the coalition document, however, reflect confused thinking and pandering to special interest lobbies which collectively put at risk the broader vision. For example, the coalition parties are committed to delivering energy "at the lowest cost to the community as a whole". Given this goal it is quite bizarre that the first three "key initiatives" proposed to achieve it are no privatisation of ECNZ, no privatisation of Contact Energy and no privatisation of Transpower. There is now overwhelming evidence that private ownership serves consumers' interests best. Countries from Poland to Argentina are privatising their electricity industries, and New Zealand will shortly be one of the few countries left with a predominantly state-run system. The business community must challenge the ideological commitment to state ownership in this and other industries. The question to ask is: 'Where is the hard data and analysis that has led the government to take a different view on electricity privatisation from practically every other government around the world?'

Similarly in education, health and accident compensation, the document shows no recognition that the core problems stem from the dominant role of the state as a provider of services and the lack of competition and consumer choice. Sooner or later people will surely realise the connection between the widespread dissatisfaction with these services and the fact that they are now provided on a different basis from almost every other service in the economy. In education and health we have moved some distance towards decentralisation but it is an unsatisfactory 'half-way house', with many tensions still pulling the systems back towards the centre. To borrow a phrase from Abraham Lincoln, a system that is half free and half slave cannot endure, and Lincoln did not believe the answer was slavery. In all these areas we need to move towards genuine market systems of provision, with the government concentrating on its regulatory and financing roles where necessary.

On a brighter note, there are some indications that the coalition is concerned about the problems of welfare dependency, and may be prepared to get serious about them. Interestingly, the impetus in this area seems to be coming from NZ First, which understands the damage state welfare has done to many Maori families, and politicians like Arthur Anae whose outstanding maiden speech was about the desire of Polynesians for work, not welfare. Work-for-the-dole schemes are not the right answer, but the underlying idea that beneficiaries receiving help have a reciprocal obligation to become self-supporting as quickly as possible is certainly sound. This is an area where the community at large - including voluntary organisations, churches and the business sector - must, in my view, assume greater responsibilities because of the real limitations of state welfare. The visit this week by Sister Connie Driscoll is intended to stimulate debate about more effective approaches.

It must be hoped that NZ First brings other fresh thinking to the coalition government. One of the main criticisms of the National party during the election was that it had run out of ideas. It does not yet seem to have come to grips with this problem - senior ministers speak openly of 'muddling through'. Muddling through was what characterised the National party under Holyoake, and it cost the country enormously in terms of years of lost opportunities. Politicians who speak or think of 'muddling through' ought to ask themselves why they are in politics, and what genuine political leadership consists of.

Politics under MMP is likely to become more fluid, and business should take an interest in the policies of all political parties. It should not play favourites.

The new environment allows business more latitude to be both critical and supportive of all parties' policies according to their merits. Recently the Business Roundtable published a report explaining why the Alliance's proposed financial transactions tax was a bad idea. However, we agree with the Alliance that appeals to the Privy Council should not be abolished and it is pleasing that this view has prevailed, despite the prime minister telling us two years ago that opposition to it was a waste of time. Similarly, we believe that many of ACT's policies are sound and innovative and would improve New Zealand's economic and social performance, but compulsory superannuation is not one of them and we haven't hesitated to say so.

For its part, Labour largely wasted the two terms it has so far spent in opposition and has failed to update itself as a political party. It was astonishing to see Labour conferring with the Council of Trade Unions during the coalition negotiations in a way that no other party did with outside interest groups. Labour must surely detach itself from its old trade union links, and with vested interests in the health and education sectors, if it is to present itself as a party capable of governing in the interests of the whole community. In education, for example, social democratic administrations from Sweden to America are promoting alternatives to state schooling: why would anyone expect New Zealand education, a sector controlled by unions, to work any better than our ports or meat industry did under union domination in the past? Labour, of all parties, should be on the side of parents and children, not the unions. The attitude of too many teacher unionists is summed up by the remark of Al Shanker, the most prominent teacher unionist in the United States: "When the kids start paying union dues, that's when we'll start looking out for their interest."

Labour should also accept the reality of the Employment Contracts Act. The ECA has brought enormous benefits to workers, firms and the unemployed and under MMP it is unlikely that there will ever be a parliamentary majority capable of overturning it. Similarly, Labour must review its commitment to big government, and to high spending and taxing policies. As Chris Patton, the outgoing governor of Hong Kong, put it recently:

It defies reason and experience to pretend that public spending and tax levels have nothing to do with Asian success or European problems.

The directions in which Bill Clinton has been moving in the United States and Tony Blair in the United Kingdom surely point the way if Labour is to become a modern and viable political force. If Labour seriously re-examined how best to achieve some of its traditional goals, I see no reason why it would not find much common ground with the policies of other parties, including ACT. In the past Labour has been the party of new ideas: sadly, it has become backward-looking and is not challenging the country's thinking.

When I spoke to this audience last November I ended by saying that we have come an enormous distance as a country in a few short years, and that MMP must mean much more progress or New Zealand will fall behind again. Those who point to the fact that some people are still struggling must accept that they won't be helped by governments that just sit on their hands. People may have a heart of gold but so does a hard-boiled egg - it is sound thinking and actions, not sentiments, that count.

Leaving aside a few lost souls in the universities and churches, there is now little debate about what constitutes sound economic policies. From recent testimony by Alan Greenspan to remarks by John Howard to the forthcoming visit of Chancellor Kohl, the international respect for our economic reforms continues to be confirmed. Clearly the way forward is for governments to pursue policies that deepen and widen them. The successful countries of Asia are recording growth rates in the range targeted by the coalition partners, not by state intervention but by strengthening their sound economic fundamentals: maintaining low inflation, keeping tax rates low, avoiding large welfare states, maintaining free labour markets and therefore low levels of unemployment, pressing on with privatisation and deregulation, and making greater use of markets and the private sector in delivering health and education. New Zealand has been doing the right things, but there are many more nettles to be grasped if we are to continue moving forward.

The business sector has been speaking with virtually one voice about the steps it wants the new government to take. It has stressed the need to maintain price stability, and the unnecessary widening of the Reserve Bank's target range may at least have the merit of demonstrating that it was an exercise in trivial pursuit and that the real problems lie elsewhere. Chief of these is the growth of government spending. Leaving aside a few dinosaurs, the business sector almost unanimously rejected proposals to spend an extra \$100 million on so-called business assistance. Gil Simpson told the recent government-business

forum that there should be a Government Help Act which would allow any of us to sue a government which attempts or threatens to help our businesses with edicts or largesse. I doubt whether many business people or organisations anywhere else in the world would take such disinterested stands.

Instead, business representatives have rightly argued that the strong fiscal position should be maintained and applied to reducing debt and tax rates. It should be possible in the next few years to substantially reduce personal and company income tax rates, down towards Asian levels of 20 percent or below. There is no logic in tying tax reductions to the outcome of the referendum on compulsory superannuation. All the evidence indicates that compulsory saving schemes do little or nothing to boost overall national savings but merely alter its pattern. As Australia's experience with a large balance of payments deficit shows, there is no reason to believe that a compulsory savings scheme displaces foreign investment even if it made sense to do so, which of course it doesn't. From a macroeconomic perspective a medium-term programme of tax reductions can be managed with or without a compulsory savings scheme provided government spending is controlled, and should be pursued as a goal in its own right.

If the business sector continues to put forward sound policy ideas in a principled way, and to criticise unsound ones, I believe it will be listened to. We must also accept the responsibility to pursue continuous improvement and innovation in all our enterprises. Only by doing so will we create the growth that raises living standards.

But perhaps the most important contribution business can make in the current environment is to challenge political parties to raise their sights. At the last meeting of the Business Roundtable, the head of the Education Review Office told us of her shock at discovering a school with an item on its notice board: 'Lower your expectations and avoid disappointment'. Contrary to what the teacher unions tell us, this attachment to mediocrity rather than excellence characterises too much of our education system. But it has also come to characterise our political system as well, following the years of leadership associated with Roger Douglas and Ruth Richardson. Business must make it its business to see that a strategy of 'muddling through' is rejected.

We should therefore commit ourselves, I suggest, to insisting that the big picture 'credibility promises' of the coalition parties are kept. New Zealand

needs strong, sustainable economic growth if it is to achieve economic prosperity and security. The policies needed to achieve such goals are being advocated by all the government's main economic advisers. However, they are not being adopted: all international observers are saying that we have gone off the boil, and investors are reducing their exposures to New Zealand. We are just drifting again, as we did in the Holyoake years. The time for a wake-up call is now, not in 10 years' time when we realise another raft of countries has passed us by.

We need a new sense of urgency and commitment to improve the business environment and attack social problems, and we need it now. I suggest that business organisations should keep a six-monthly scorecard on whether the necessary policies are being put in place, and should highlight shortcomings. Government expenditure trends and the growth outlook should be a particular focus. If this causes some tensions with the government or with vested interests that would be affected by change, so be it. Those who make credibility promises to the electorate should be held accountable for delivering on them.