

Wanganui Chamber Of Commerce And Industry

Businesses Not Governments Create Wealth

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BUSINESSES NOT GOVERNMENTS CREATE WEALTH

Thank you for the invitation to attend your annual general meeting and to offer some reflections on the subject of wealth creation. With just two days to go before the next general election - the first under our new electoral system - the topic is an important one.

While I will affirm that businesses not governments create wealth, businesses rely on governments to provide a sound framework for the economy. A heartening point in the current election campaign is the extent of the consensus on the economic strategy New Zealand has followed in the last 12 years, a strategy that has provided a greatly improved framework for wealth creation.

If we look behind the campaign rhetoric, the reality is that any likely combination of parties in the next government will be committed to the main outlines of the policy framework in which the economy is now operating. New Zealand has moved forward from being an inward-looking, rigid and stagnant economy to one which is much more open, competitive and dynamic, and there will clearly be no turning back.

This is not to argue for a moment that there are no differences between party positions, nor that they are unimportant differences. Some of those differences would plainly alter New Zealand's outlook, for better or for worse. But the distance between party positions today is generally far smaller than the distance between the common ground now shared by most parties and the common ground of 12 years ago. The centre of gravity of New Zealand politics has shifted a long way.

What is happening, of course, is that most political parties are reflecting the shifts in worldwide thinking about how to run a sound economy and provide a framework for wealth creation. The recipe is now hardly controversial: it includes monetary and fiscal discipline; open and competitive markets (including markets for capital and labour); tax policies which minimise disincentives to work, save and invest; a sound education system; and welfare arrangements which provide a safety net but do not stifle initiative. New Zealand scores well on many of these fundamentals, although there is work to be done on others.

The pre-election polls provide further evidence of consensus. For the first time for many years, neither the economy, nor a closely related topic such as unemployment, are at the top of most people's concerns. Rather, and by a large margin, the most pressing concerns are health and education. It is curious to note that this level of dissatisfaction is associated with two sectors which now stand out from the rest of the economy in that, first, they are largely monopolies and, secondly, the chief deliverer of these services is central government. It could also be that there is a perception that the rest of the house is in reasonable order.

The fact that the main reforms appear to be relatively secure is surely due to one principal cause, namely that they have produced largely what their promoters said they would - higher productivity, greater employment and a lift in household incomes. Perhaps the clearest example within the new framework for the economy is the Employment Contracts Act 1991. Without that Act our labour market would have retained the rigidities of the pre-1991 era and it can reasonably be assumed that

nothing like the 237,000 jobs created since its passage would have materialised. Nor is it likely that we would have seen the rapid decline in the New Zealand unemployment rate from nearly 11 percent to just over 6 percent of the labour force, the fastest fall in the OECD area.

So from a business perspective it is reassuring that the most significant political players support an open and competitive economy. However, they sometimes seem to take that framework for granted. As the National Bank's June *Business Outlook* noted:

... government expenditure has crept ahead of earlier stated intentions, catching the Reserve Bank somewhat unawares.

The National Bank added that primary government expenditure "is now 2 percent higher than planned in 1995 and expected to rise as a proportion of GDP in the near term." This extra spending will generate considerable tension between fiscal policy and monetary policy, creating headaches for the productive sectors of our economy, i.e. business. Various election manifestos pledge significantly higher levels of spending.

The opening up of the financial system and the reform of the public sector have provided this country with far more realistic and transparent assessments of decision making than in the past. Financial markets, it's been said, have the sensitivity of a gazelle, the speed of a cheetah and the memory of an elephant. What they tell the international community is that spending has consequences and that bad spending decisions have bad consequences. This is true both for companies and governments.

Some people might ask whether such scrutiny matters in a country which, according to the latest Treasury and Reserve Bank forecasts, is expected to run budget surpluses until the turn of the century and beyond. The reality is that any economy has limited resources, and if its citizens want higher living standards they must be vigilant in insisting that all resources are applied to their most productive uses. Again, the same applies for companies.

There are clear lessons from Britain, Australia and many other countries of the dangers of dissipating hard won fiscal gains and yielding to pressures to spend more. All spending must continue to be subject to rigorous scrutiny, for, at the end of the day, resources devoted to the public sector are not available to the private sector to generate income and jobs.

In short, the risk of returning to the spending habits which got New Zealand into the economic mess from which we have so painfully had to extricate ourselves is a risk New Zealand will face in the next parliamentary term. Quite aside from the impact this spending would have on inflation and borrowing rates, it would limit the scope to cut personal and company taxes and further reduce the public debt burden generated by more than 20 years of living beyond our means.

New Zealand has a good deal to be proud of in the reforms of the last 12 years but unless we continue to innovate and improve, the flexibility and efficiency of the economy will erode over time. That's the reality we all face. No organisation or country can just stand still.

Recently the New Zealand Business Roundtable published a review of New Zealand's economic reforms in an international context. The author, former OECD chief economist David Henderson, argues that New Zealand and Australia were slow to follow the international trend towards economic liberalisation that began in the second half of the 1970s. By the mid-1980s our heavily regulated economies stood out as an anomaly as governments in all OECD countries moved to open up markets and place stricter limits on government intervention.

Once New Zealand began its reform programme, however, it proceeded in a thorough and relatively comprehensive manner. This has been particularly true, according to Henderson, in three areas: tax reform, control of government expenditure and labour market policies. His overall conclusion is that the scope and quality of the New Zealand reform programme has been exceptionally high.

New Zealand needs to maintain an ambitious vision for the future which takes into account the ability and willingness of New Zealanders to compete in the wider world without the assistance of a maternal state. Such a vision clearly has appeal for younger New Zealanders who were not brought up in that stifling environment, and who have the confidence - that 'can-do' attitude - to accept international challenges. The current political debate seems to be focusing more on the process, e.g. coalition options, than on visions. Perhaps this is a necessary consequence of the newness of the process. It is, nonetheless, unfortunate.

I have spent 25 years in business outside New Zealand and I know from experience that New Zealanders working internationally can foot it with the best. There is no reason why we cannot aspire to international best practice in New Zealand. In Mobil, we benchmark with the best around the world and have both offered and accepted best practice in different parts of our business. This adds to wealth creation - through better technology, better service, better jobs and a safer environment. As a country, we should be moving forward, benchmarking our policy framework and enthusiastically implementing improvements.

I mentioned earlier the Employment Contracts Act 1991. If the views of its critics were valid, one would expect it to have generated a decline in cooperation between employers and employees. The evidence suggests that the opposite is closer to the reality. The World Competitiveness Report ranked the relationship between management and workers in 48 countries on a range between "genuinely fragile" and "genuinely productive". The New Zealand management-worker relationship ranked second in the world in terms of being "genuinely productive".

While we should be delighted with that rating, our vision at Mobil is that we simply have one workforce. To me, focusing on such terms as 'managers' and 'workers' is archaic. We talk about 'teams' at Mobil. A united workforce, aligned with the company's vision, is the surest way to create wealth.

There is more evidence from Australia. Craig Littler of the University of Southern Queensland has noted substantial differences between worker morale in the face of restructuring and downsizing in Australia and New Zealand, differences which come out in New Zealand's favour. Job satisfaction, staff motivation, promotional opportunities, staff commitment to the organisation and overall morale among staff were all significantly better in New Zealand than Australia. One key factor identified

by Professor Littler was what he calls a "broadly based culture of transformation" and an ability to bite the restructuring bullet hard so that the frequency of reorganisations in business is reduced.

I believe that conclusion holds true in the oil industry. Deregulation of the oil industry in 1988 certainly generated big changes but also big rewards for the consumer. For the oil companies, tougher competition has meant strenuous challenges. Any company which seeks to put its interests over those of its customers by increasing prices without good justification finds such action unsustainable in today's competitive market.

Tougher competition has also made us focus on service to the consumer. The transformation of our service stations is a very visible sign of the effects of that competition for the motorist's dollar. It accounts for a significant proportion of the more than \$1.25 billion of new capital investment in New Zealand by the oil industry since deregulation.

But it's not just capital investment dollars that count with respect to customer service. Again, at Mobil, we have focused on our people, with more training and programmes to help them reach their full potential. This is real wealth creation, benefiting both the company and our people. These programmes, which were exposed to the same rigorous economic analysis as capital investment programmes, cover diversity, mentoring, and paid parental leave. We also have some less structured programmes like casual dress and summer hours which all add to a productive environment.

Another area where we have focused capital investment dollars is oil and gas exploration. We participated in an exploration play off the Wairarapa coast in early 1995 and our new affiliated company Ampolex is a partner in a group that has just started drilling a prospect in the offshore Taranaki basin. This prospect relates to one of five licences taken in the basin. Of course, exploration is all about wealth creation and it's the role of businesses like ours to take the risks and provide the capital investment. It's the role of the government to ensure that New Zealand remains internationally attractive for investments such as oil and gas exploration where they are economic.

In closing, my contribution to the political debate would be to ask politicians not to underestimate the ability and willingness of New Zealanders to compete in the world. Accordingly, they should maintain a vision of excellence and press on with the task of improving the framework which is making New Zealand's economy more conducive to wealth creation.

The fastest way to cloud our future prospects would be to take the performance of the economy in the last five years for granted. No economy is likely to grind to a sudden halt if policies are tampered with in minor ways - I don't think anyone in the business community has been making that prediction. But even minor tinkering of the wrong sort would make the economic engine run less smoothly at a time when we should be trying to increase the momentum of progress, and major tampering could cause the engine to seize up.

Few people just wish to stay with the status quo in their lives: most want improvement. But people don't want drastic and traumatic change either, and there

should no longer be any need for that kind of change provided we continue to improve. You all know about the need for continuous improvement in business. You either keep improving at least as fast as your competition, or you lose ground. The lesson for a country is no different. Does anyone seriously think our trading partners in APEC aren't on to this simple fact?

Earlier this year the OECD published one of its regular reviews of New Zealand. Among the further changes it recommended to improve our economic framework were:

- a lowering of high personal and company tax rates;
- further privatisation of central and local government businesses;
- improved efficiency in central and local government;
- continuing reform of producer board regulation;
- opening up ACC to private sector competition; and
- more direct resourcing of schools.

It is perhaps in these areas that future governments should look to discharge their duty to further improve the policy framework. They should then step back and let business, which is just the nation with its working clothes on, get on with the job of creating wealth for our community.