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MMP must mean Much More Progress

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Many people in this country have argued that good government is smaller government, and for some of them the recent election may seem to have delivered the ultimate nirvana - truly minimal government. Certainly the financial markets have rallied strongly, and business people have been able to get on with their job of running businesses, free of the risk of immediate political surprises. The challenge to those engaged in coalition negotiations is whether they can maintain this happy state of affairs for a full three years.

More seriously, the election result was a clear ratification, if any was needed, of the general directions which the country has been following over the last 12 years. Whatever government emerges will have no mandate to tamper with the basic elements of the current economic framework. The Manufacturers Federation correctly pointed out that the key economic policies that are essential to continued economic success were overwhelmingly endorsed by the electorate:

- " • Retaining our flexible, enterprise based employment relations system - National, NZ First, ACT, United (60% of parliament);
- No further tariffs or obstacles to trade or investment to be introduced - National, Labour, ACT, United (75% of parliament);
- Reducing the overall level of taxes - National, NZ First, ACT, United (60% of parliament); and
- Maintaining low inflation and retaining the Reserve Bank Act - National, Labour, ACT, United (75% of parliament)."

By contrast, parties which put forward policies to raise personal or company tax rates, abolish GST, increase tariffs, slash immigration, introduce compulsory superannuation and buy back former state assets account at most for 38 percent of the parliament, and usually considerably less.

This outcome must be a disappointment for those whose agenda in promoting MMP was to roll back the economic reform programme. If the electorate's wishes are respected, it is now clearly locked in.

For the Business Roundtable and many others, however, the electoral reform debate had little to do with economic directions. It was properly about the strengths and weaknesses of alternative voting systems, recognising that none is perfect. The main criticisms of MMP, you will recall, were that it was a less democratic, less transparent and less accountable system. The risks were that it would give more power to political parties rather than to voters; lead to deals behind closed doors in which politicians dispense favours to interest groups at the expense of everyone else; make pre-election manifestos even less of a guide to subsequent actions; allow small parties to exercise disproportionate power and large parties to blame them for abandonment of policies, and make it difficult for voters to get the policies they wanted and throw out governments they disliked.

Whether and to what extent this analysis is borne out will become clearer over time. The early signs, however, are not good. Despite the strong support for the core policies listed by Manfed, each and every one of them - the freer labour market, the open economy, the commitment to tax reductions and the Reserve Bank's mandate - appear to be on the bargaining table. In the past, whatever their level of support and partisan affiliations, parties elected to office normally felt an obligation to govern in the interests of the whole country. This is because they would be thrown out of office if their policies did not appeal to the so-called median voter. Under MMP the name of the political game for a minor party is to pursue its own self-interest, no matter what damage is done to the interests of the community as a whole. As the *Otago Daily Times* put it:

Now the tyranny of the minority is accentuated - a party commanding all of 13% of the total vote is the power broker. [Is that] more democratic?

What was truly striking about the election campaign was the absence of a forward-looking focus and vision for New Zealand among most of the parties seeking office. *The Economist* recently wrote that:

When it comes to economic reform, it is hard to fault New Zealand: the country has the world's best fiscal and monetary policies, as well as one of its least distorting tax systems and most efficient labour markets.

Yet the main opposition parties spent much of their time criticising policies that we have got right and promising to go backwards, the government's defence of them was half-hearted at best, and no established party was focused on what we haven't got right and the possibilities of doing better.

The reality is that New Zealand is still massively under-achieving. Our average annual income per head is around \$20,000 whereas the average in countries like Japan and Switzerland is \$50,000 or more. Some time ago the government set itself the target of an average rate of economic growth of 3.5 - 5 percent to the year 2010. In its *Pre-election Economic and Fiscal Update* it reported the consensus of economic forecasts for the three years to 1998/99 as being an annual growth rate of 2.9 percent, well below the bottom of its target range. Yet nowhere did it tell us why it was falling short of its target, and what it proposed to do about it. New Zealand First has a higher target for growth, but its policies and those of most other parties would clearly lead to a weaker rather than a stronger growth performance. New Zealand is no longer a basket case, but it is certainly no tiger either.

Earlier this year the Business Roundtable and the Auckland and Wellington chambers of commerce and industry published the report *Moving Into The Fast Lane*. In it we set out the policies we saw as necessary to improve New Zealand's economic performance. The other main business organisations support broadly the same agenda. The OECD in its 1996 New Zealand Survey also came up with similar recommendations. They included:

- vigilance in maintaining government expenditure restraint;
- privatisation of state-owned enterprises and more competition in their product markets;
- reductions in the top income tax rates;
- improved efficiency in local authorities and divestment of their businesses;
- removal of producer board monopolies;

- the introduction of competition and private delivery into ACC; and
- more direct resourcing of schools and the abolition of centralised teacher employment arrangements.

The OECD is no radical, 'new right', organisation; it reflects the mainstream views of its member governments. Yet virtually none of its major recommendations for improving New Zealand's economic performance was reflected in the election programmes of the main political parties. Do they think they know something about running an economy that the world's high-income countries don't, or have they just thrown in the towel?

When our organisation has promoted ideas such as those on the OECD's list in the past, the prime minister's usual response has been to say they are "too ambitious". He spent much of the election campaign ruling them out. It's almost as if we were back to the days when the vision of a former prime minister was to leave the country no worse than he found it. The government seemed to be saying it had no new ideas and that this is as good as it gets.

It has become conventional to say that, particularly under MMP, the new economic directions are secure but the era of radical reforms is over. There are several things that are wrong or disturbing about that statement.

First, as I indicated, all of the core reforms are being challenged to varying degrees, despite the absence of an election mandate. Proposals by Labour to repeal the Employment Contracts Act, for example, would take us a long way back towards the union-driven, unproductive and disputatious employment relations system from which we so recently escaped. Presumably they would take satisfaction from the fact that progress towards achieving more productive enterprises and lower levels of unemployment would be slowed down or reversed?

Secondly, although New Zealand's economic programme has won international respect for its overall quality, we started well behind international best practice. The reforms are radical mainly by the standard of our previous eccentric and impoverishing policies. Trade liberalisation, deregulation, privatisation, tax reform and inflation control, for example, have all been worldwide trends. No alternative economic or ideological model

competes with the emerging global consensus about the value of open markets and the necessity for macroeconomic prudence. Would anybody regard the transformation of the countries of the former Soviet Union and Eastern Europe as radical, except by comparison with their efforts to run an unworkable economic system?

Thirdly, we have now done most of the hard yards; there is no longer a huge backlog of postponed change to catch up on. Therefore there is no reason why future change should be radical or traumatic provided we don't opt for more teabreaks and fall behind again. People don't want traumatic change, but in my experience they don't usually lack aspirations either. Typically they want improvement in their lives, but they won't get it if New Zealanders and their political leaders are unwilling to embrace continuing change. The certain result of a decision to do nothing, for a company or a country, is to go backwards. For New Zealand this would eventually mean enduring the pain of restructuring all over again.

Those who lack an appetite for ongoing change include institutions which have barely changed at all - universities are a case in point - and politicians who would rather have a quiet life than exercise leadership and take political risks. For them, MMP and the alleged difficulties of achieving change under the new system are the perfect cop-out.

This excuse should be regarded as pathetic: many countries with proportional representation systems have repeatedly demonstrated an ability to make far-reaching changes. The dramatic transformations in the former Iron Curtain bloc, which are still continuing, are being implemented by governments elected in most if not all cases under proportional representation systems. Many of them have privatised large parts of their electricity systems, for example, despite the former ideological belief that electricity was at the heart of public ownership - or as Lenin put it, that "communism is socialism plus electricity". Social-democratic Sweden, with a proportional representation system and a history of weak governments, has recently introduced one of the world's best education voucher systems and privatised two universities. In New Zealand's last election campaign, our prime minister ruled out electricity privatisation and education vouchers, presumably because he regarded them as unpopular. Yet if electorates in other countries with proportional representation systems can be convinced of the benefits of such changes - and

elect and re-elect governments on platforms of privatisation, for example - why wouldn't political leadership achieve as much in New Zealand?

If, on the other hand, I am wrong and most New Zealanders don't want improvement in their lives, prefer to resist well-established recipes for better economic performance or even want to turn the clock back, then we should all accept the democratic verdict. As *The Economist* recently said about the Philippines, if voters wish to elect a government which mismanages the economy, they should be allowed to. But people should not then complain when unemployment, poverty and social stress increase and per capita incomes fall further behind those of comparable countries. We have a long history of achieving mediocrity, in government and in business; indeed we are past masters at it. If mediocrity is what people want, we won't be short of politicians capable of delivering it.

Right now, of course, there is a great deal of frenzied speculation about which parties will form the next government. As in the past, however, the important issue is not which government is in office but what policies it will pursue.

We should not forget that it was a Labour government which, to its very great credit, initiated the first phase of economic reforms in the 1980s, and a National government which carried them on. Today all parties other than the Alliance, which slumped to 10 percent of the vote, support the current directions. Prior to the early 1980s, by contrast, all our main political parties supported Alliance-type policies, and they attracted perhaps 80 or 90 percent of the vote. In those days we used to call such policies Muldoonism. It took us a long time to realise that if the Alliance had ruled the world since its inception, mankind would still be living in caves - though no doubt the mammoth meat would be distributed equally. But fortunately we did wake up, and the centre of gravity of New Zealand politics has now shifted a very long way.

We should also remember that governments change. Probably they will change more frequently with MMP. Given the need for a revitalisation of New Zealand politics, the issue of which parties are in opposition is now arguably at least as important as which are in government. Some parties have made good use of their time in opposition to re-examine their policies and come up with fresh ideas. This was the case with Labour prior to 1984, and with National in the 1987-90 period after wasting the previous three years. Now National seems

in need of rejuvenation again and Labour seems to have gone backwards, contrary to its counterparts in other countries. British Labour Party leader Tony Blair, for example, has almost made a fetish of abandoning Labour shibboleths such as trade union privileges, public ownership, and tax-and-spend policies, and has no difficulty expressing admiration for Margaret Thatcher. President Clinton has taken decisions on welfare that his Republican predecessor was unwilling to contemplate, and unashamedly declares that "the era of big government is over".

In the eyes of outsiders, including the international investment community, we are just coasting again while other countries are moving ahead. *The Australian Financial Review* in an editorial spoke of "the clammy grip still reaching out from the socialist grave - pulling New Zealand back into its welfarist, isolationist roots". We can see this tendency across all parties in proposals for increased government spending, restrictions on foreign investment, compulsory superannuation, retention of producer board monopolies, public ownership of businesses, and politically elected area health boards. Too many politicians, journalists and academics still don't have faith in ordinary people. An academic Tim Dare from Auckland University - where else? - came out explicitly last week in favour of paternalism. Such people feel intellectually and morally superior to the rest of us, and want to tell us how to run our lives.

What can the business community in New Zealand do to help arrest the drift? In my view it must be active and give a lead to the community at a time when we may be entering dangerous waters. The economic outlook for the next 3 years is already far less exciting than it should be, and the forecasts I mentioned may turn out to be optimistic. The economy has lost competitiveness and many export industries are under stress. It would not be surprising if the rate of growth falters and unemployment starts to rise again in the near future. Lower tax receipts and higher welfare payments would quickly turn around the government account from high and rising surpluses into budget deficits. Our return to 'borrow and hope' territory will be even speedier if politicians indulge in fiscal irresponsibility in their eagerness to be part of a coalition government.

It is vital that the business sector correctly diagnoses the nature of the present problems and promotes the right remedies. They have nothing to do with the Reserve Bank, which is coping well in difficult circumstances to contain

inflationary pressures. The Governor of the Reserve Bank undoubtedly did the country a service recently when he reminded us that increased government spending is guaranteed to have interest rate and exchange rate consequences - because someone must pay. Endless arm-waving by business and other commentators about the Reserve Bank merely plays into the hands of those who would weaken monetary discipline, and it diverts attention from the agenda that politicians should be forced to confront.

Memories must be very short if businesses and farmers cannot recall that the fundamental causes of the high real exchange rate and weak export profitability in the late 1980s were the Labour government's lack of fiscal restraint and the dysfunctional labour market of the time. The correction of these problems in 1991 sharply improved international competitiveness and triggered the economic recovery. Over the last two years we have lost ground again on both fronts. The government's decisions have increased spending by \$3.3 billion in the three years to June 1997. We have not had spending increases on this scale since the Muldoon and Kirk/Rowling governments held office. Labour market performance has deteriorated with the rigidities introduced by the Employment Court. Business warned that this would happen if the government retained a labour court, and employers have now totally lost faith in the institution. In addition, the lack of progress with the agenda identified by the OECD has added unnecessarily to domestic costs.

Business will not do itself or the community a favour if it sits idly by and allows the gains of recent years to be eroded. The time for vigilance is now - not when we've started down the slippery slope. If the community is to enjoy higher living standards, more jobs and less social hardship, we have to face up to continuing change. Unless we do, New Zealand's performance will continue to disappoint. Politicians must be challenged to see their role as leaders and agents of change. As Jacques Chirac has put it: "Politics is not the art of the possible, but rather of making possible what is necessary." MMP must mean much more progress, not an excuse for doing nothing, or worse.

Let me conclude by listing 10 things business people like yourselves might do - not exactly 10 commandments but at least 10 suggestions for playing a role that would help inspire excellence rather than mediocrity as a national goal.

1. Set out credible visions of what New Zealand could achieve if we put our minds to it. For example, full employment by the year 2000 and living standards equal to Australia's within 10 years are perfectly feasible goals.
2. Spell out what needs to be done to achieve such goals. *Moving Into The Fast Lane* is one such contribution.
3. Focus on causes, not symptoms. The economy is an interrelated system and stresses in one area, such as high interest or exchange rates, are usually the result of imbalances somewhere else. Likewise all interventions carry a cost, and some of the most well-intentioned ones carry costs that far exceed the benefits.
4. Pay particular attention to the health of the export and import-competing sectors. If these are not profitable and growing, the rest of the economy will suffer sooner or later.
5. Regard decisions on government spending as the litmus test of whether the outcomes of coalition negotiations are responsible or not. Government spending is usually the ultimate source of inflationary pressures, and spending discipline is the only basis for continuing tax reductions. There is still an enormous amount of wasteful and badly directed government spending, and any new commitments should be more than offset by reductions elsewhere.
6. Avoid partisan stances and stick to policies, not politics. Business should be prepared to work constructively with all political parties. Lobbies such as the trade unions and the producer boards which have allied themselves to particular political parties are in a weak position in the MMP environment.
7. Don't offer up sloppy thinking or second-rate compromises. The most valuable contributions to public debate are those that attempt to come up with the best answers, even if they are controversial or politically unpalatable in the short term. You all know that weak decisions in business affairs carry a penalty, and national affairs are no different.

8. Strenuously oppose any efforts to dismantle sound achievements such as the Employment Contracts Act. Labour ministers used to tell us that they couldn't make the necessary changes to the labour market because ultimately Labour was a trade union party - some other government would have to do the job. Any attempt to revert to union favouritism should attract the criticism it deserves. The ultimate arbiter will not be the temporary balance of power in parliament but the court of public opinion.
9. Insist that any proposals that come out of backroom negotiations for which there is no election mandate are subject to open consultation and debate. It would be outrageous, for example, if a compulsory superannuation scheme which was supported by under 20 percent of the parliament was foisted on the country without a thoroughgoing process of expert examination and public participation. This, after all, was what MMP was supposed to be all about.
10. Finally, don't be afraid to speak out. The public needs to hear a clear voice from business. Business is where the community gets its living standards from; it is the nation in its working clothes. Don't leave it to the next person, or the professionals in business organisations. You employ people, look after people's savings, meet consumers' needs - you have a vital role in your communities. All of us in business who want to see New Zealand do better yet have a duty, I suggest, to give a lead, educate politicians and help build support for necessary changes. We have come an enormous distance as a country in a few short years, and can go a long way further. Now is not the time to drop the ball.