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**BUSINESS IN NEW ZEALAND:
AS IT WAS, IS, AND COULD BE**

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BUSINESS IN NEW ZEALAND: AS IT WAS, IS, AND COULD BE

A diplomat, a businessman and a politician (all of whom shall be nameless) were at the Trentham races recently with Rachel Hunter. The diplomat asked her whether she'd like a chair. The businessman fetched it. The politician sat on it.

If there's one fundamental theme in New Zealand's change over the last generation it's that industry used to be dominated by politics and today it is not. And all of us, not just the supermodels, are the better off for it. Politics is about power and too often about running other people's lives. Business is about producing things people freely choose to buy and earning an income in the process. Which is more helpful to a country's citizens?

There are those today who find that a choice between two evils, but it has not been ever thus. "A man", said Samuel Johnson, "is never less harmfully employed than when he is making money."

In my experience this is largely true. I'm to speak today about how the practice of business has changed in New Zealand over the past 30 years. How it was, how it is and how it might still be.

Water goes down the plughole differently in the southern hemisphere. In the course of my life I've noticed that time plays tricks on us New Zealanders too.

The '80s started in Auckland in 1984 and lasted three years. The decade was all over by 1987. It wasn't the first time we'd been short-changed because the '60s, as understood by the rest of the world, didn't happen here at all.

I vividly remember coming home to New Zealand in the middle of that turbulent decade. I was leaving England when it was in the middle of a cultural revolution, a sort of explosive liberation of talent and personality after the long, rather drab post-war years of rationing. The traditional English establishment was being turned over by

(amongst others) Vidal Sassoon, Michael Caine, Mandy Rice Davies, the trial over *Lady Chatterley's Lover*, Harold Wilson, the Beatles, mass immigration, the Pill, drugs, satire, rock and roll, and Britain's proposed entry into the Common Market. New Zealand, I have to say, was blissfully unaware of most of these things.

We were rich. We were safe. We were secure. The kiwi dollar was worth well over one American dollar. There was no open unemployment. Relatively few people went to university because there was no practical purpose in doing so: a degree was thought to be a harmless affectation. Two-thirds of the work force had no qualifications at all, and it didn't matter because there was always the meat works, the Ministry of Works and the Railways. The board directors of many of the largest companies were appointed for social or political reasons. And for this reason there was one sign that hung outside all the country's boardrooms and it read: 'Do Not Disturb'. The country was asleep, smug and lazy.

What was the business world like in this dreamtime? Funnily enough, business was even less well thought of than it is today. Indeed, business was the last thing a respectable person went into. Law and medicine, which are usually regarded as the top professions, were outranked in New Zealand by sheepfarming. The country's aristocracy, so my old headmaster devoutly believed, lived on the big stations of Gisborne, Waipukurau and Rangiora. Those were the days when you could put two children through private school on the income from twelve hundred stock units. Business was regarded as an occupation for dullards and dunces. I had some of the necessary qualifications for a business career; others I had to acquire.

Patience was probably the most important quality then, because liquor was a deeply conservative industry in a deeply conservative country. In the first 66 years of the twentieth century there had been one major event in the brewing industry: in 1923, a variety of provincial interests combined to form New Zealand Breweries, and 40 years later almost nothing had changed. The same families, and in some cases the same individuals, were on the board, and the board ran the company with all the autocratic power of medieval barons. But as in any baronial system, there were other barons, and

New Zealand had been carved up into the three great estates of industry, the unions and government. The only people who had little say in anything were the consumers.

Our industry lobby group was called the Hotel Association. Its main activities were threefold: to collude on prices, to conspire against the unions, and to try to stop new licences being granted. That's worth saying more than once. The main purpose of the industry's main lobby was to limit the industry's growth. Part of the reason was that all the breweries had persuaded themselves that there was no point in agitating for improvement because everyone was suffering equally. In the absence of real commercial activity, politics dominated the economy. And if we were all suffering equally, that was the egalitarian New Zealand way. They say the past is another country, but New Zealand's business past is like another planet.

To maintain the egalitarian way the essential thing was to keep back those who wanted to get ahead. That required the exercise of political power. That's why New Zealand had an authoritarian culture of control. Everything was controlled by the state. For the liquor industry, there were controls on hours of opening, what you could serve, what you could charge for it, how many people you had to employ, the number of carparks you had to have, how many outlets you could have in an area, how many bedrooms you had to provide. Whether or not there should be a connection between alcohol and bedrooms may be a matter for debate, but I think we can agree it should not be a matter for legislation.

The tourism industry wanted hotels to be set up in isolated places but they couldn't pay their way and so they had to be owned by the state. There was no point in the private sector developing any of its outlets because price controls meant you'd never get your money back.

For their part, the unions had extraordinary power over their members, no less than over their members' employers. In those days, the chefs' union was the elite group in the industry; they were the Grenadier Guards of the working class. They had all the suppliers sewn up and it was they – not the investors, nor the managers, nor the

bankers – who determined how many hands were to be employed in the kitchen and how much capital expenditure was required, regardless of how many customers were expected.

That's why management had given up, why it was impossible to generate any growth in the industry, and why business wasn't an attractive prospect for a young man. Everything that wasn't forbidden was compulsory. As I say, it was the same misery and suffering for everyone, so at least it conformed to the egalitarian way.

There were some changes in the '70s, but overall things stayed much the same. It came about – not entirely by chance – that I acquired a strategic stake in Lion. When I was made managing director, I thought the first thing we had to do was to break the political logjam and introduce a few normal commercial practices. So we began by closing three breweries, and put \$20 million into upgrading the plant.

This strategy was thought to be unwise by the more experienced members of the industry. Actually, they thought it was an act of insanity. Investment could never be recouped because of price controls, and owners never closed breweries for one good reason: to do so made you more vulnerable to the unions. They would happily keep uneconomic units open if it meant their union enemies were undermined. It was a desperate way to conduct business. Actually, relationships with the unions hadn't improved one jot. Managers were frequently assaulted, there was theft, there were drugs. There were parts of the plant where managers simply weren't allowed to go.

Whenever I see films or television programmes about the heroic struggles of union organisers I remember the mattress rooms. Workers put in long hours to get overtime. They were often the worse for wear from drinking on the job. And they had whole rooms full of mattresses where they'd go and lie down for a few hours.

The conditions in the plants were generally as bad as anything I've seen in China. The noise level in the Auckland plant was such that the men risked serious damage to their hearing. And it's worth pointing out that changes in these conditions happened not as a result of unions, nor of government regulation, nor health and safety inspectors, but

because of an imperative that was purely commercial in origin. In order to improve the quality of our product we had to upgrade our machinery, modernise our plant, improve our working conditions, restructure the production line and build relations between management and the workforce that were based on mutual respect. Because that's how successful businesses work – not by exploitation, not by the brute exercise of power, not by force.

I remember our human resources people took a prominent union leader round the new plant and then let him wander at will, talking to anyone he wanted to. He came away, I have to say, bewildered that so much increased productivity was going hand-in-hand with such a motivated, loyal and, yes, happy workforce. Ken withdrew his opposition to the employment arrangements at Lion – but he never went public with what he had seen there that day. It would have been more than his job in the union was worth.

However, it's important to recognise that it wasn't just the unions who were to blame in this primitive battle. The occupants of the opposing set of trenches – the managers – were just as bad.

Management had ceased to manage. They no longer controlled the rostering. They'd given in to guaranteed overtime whether the demand was there or not. They'd cannibalised plant from all over the country, bringing in outdated or non-performing pieces of machinery from other breweries to tack on to the production line. There was no commercial logic to what they did. The whole thing had descended into malevolent politics characterised by moral and emotional squalor.

You can sense that I didn't find all this an ideal state of affairs. But the interesting thing was that it wasn't considered to be a disaster. Because commercial growth was constrained, the power of the unions was also constrained and this was regarded as a perfectly good trade-off. That's what's known as a lose-lose outcome, and it was one that everyone was happy to accept.

I remember going down to the Auckland plant to put a new philosophy to the staff. I'd been told to get there before 8am so that the men wouldn't be too drunk to hear what

was said. I was the first person from head office they'd seen on the factory floor. As I spoke to them, a man in a kilt danced in front of me in a slow, continuous jig. When I finished speaking about the need for cooperation because job security was threatened by competition from other breweries, one of the men from the back of the hall said what all his colleagues thought: "Look chum: you're the enemy. The guys at DB are our mates."

And that was precisely the attitude in those days. There were bosses and workers. Everyone was in their little box. The culture was only egalitarian among people of the same class. Until very recently, New Zealand was quite shockingly hierarchical. If you were a worker in those days, your expectations and ambitions stayed in the working class. Today if you're bright and you want to get ahead you can. Interestingly, this is something the Chinese workers at Lion's new plant at Wuxi took just a few seconds to figure out. They are hungry to learn new skills because they know that if they do they can earn more for themselves, provide for their families, and get on in the world.

China's politicians are in the process of withdrawing from industry. The privatisation of state-owned enterprises looks set to rival the transformation of China's agriculture over the past 20 years as one of the greatest economic changes the world has ever known. The results of that process will become ever more obvious in the years ahead as the country's vast economic potential is realised. The benefits of state withdrawal are well known to us. The range of quality and price of cars, televisions, radios, computers, shoes and so on are now as good here as anywhere in the world. These benefits are so obvious and so familiar that we accept them without question.

Deregulation unleashed an amazing vitality in New Zealand industry and gave the country hope for the first time in a generation. If we want to keep, let alone improve, our place in the world – and I have some serious doubts about that – we will have to restart the process we abandoned when Jim Bolger dropped Ruth Richardson.

By the mid-1990s, with the benefits of the Roger Douglas and Ruth Richardson reforms coming through strongly, we all felt New Zealand had the capacity to enter the fast

lane. The Business Roundtable published a paper with that as its title, urging the government to lift its sights further. Budgets confidently projected government surpluses rising to \$8 billion today. A quarter of a million new jobs were created and the unemployment rate fell from 11 to 6 percent. Annual economic growth rates of 4 – 5 percent were being recorded without pressure on inflation or the balance of payments. New Zealand was getting high rankings in surveys of economic management and international competitiveness.

We proved to ourselves that reform worked, and then we gave the game away. Like David Lange before him, Jim Bolger decided that ongoing reform was too much like hard work and opted for another teabreak. While other countries kept working to make their economies more competitive, the Great Helmsman sat on the poop deck. The government reverted to Think Big spending habits, which flattened the private sector. Growth has come to a standstill, unemployment is increasing, we have a current account deficit of Asian proportions, and a credit rating downgrade is looming. MMP has just added to the paralysis and the low quality of decision making. Far from joining the fast lane we are at risk of going right off the road and into the ditch.

There was no need for any of this. Countries like the United States and most of Europe are not facing recession because of Asia. With lower tax rates the business community and households would have been in far better shape to face the new uncertainties. If the Employment Court had not been allowed to stifle job creation our unemployment rate could have been where America's is today – well under 5 percent and falling. In such an environment, what business person would not be facing the future with twice the level of confidence business has at present?

Those who are responsible for this state of affairs should be put in the dock. As unemployment rises and poverty increases over the next couple of years – as they surely will – those who called Ruth Richardson's policies 'heartless' and backed Jim Bolger and New Zealand First should be called to account for the results. Winston Peters said he wanted to change Business Roundtable policies and he has certainly done that – ever since he came into office unemployment has been on the rise. And those

who favour Labour and Alliance prescriptions of even more state spending and government intervention need to wake up to the fact that with such policies the results would be much worse.

There is nothing wrong with New Zealand workers and managers. Lion's staff in New Zealand are as competent and hard-working as any in Australia or China. New Zealand is part of an international market for managers – we have access to the best in the world. Chief executives from the United States, Canada, Britain, Australia, South Africa, Italy, Austria and Greece sit on the Business Roundtable. There is no reason why we cannot keep moving up a business learning curve. But we will not attract and retain talent while New Zealand reverts to mediocrity, and most businesses will not find ways to invest, grow and create jobs in such an environment – any more than they did in Muldoon's day.

There is no reason why New Zealand could not be growing at 3.5 – 5 percent a year and moving towards full employment, but when did you last hear a government minister promoting that vision? There is a clear consensus internationally about the policies needed to raise national incomes. Governments at all levels need to curb their spending, reduce tax and regulatory burdens, and give the private sector freer rein in areas like health and education. New Zealanders are still as highly taxed today as they were 20 years ago at the beginning of Muldoon's second term of office. The average New Zealander spends two days a week working for the government. Local government is engaged in a raft of activities that belong in the private sector, and is imposing totally unjustified costs on businesses. Until we move decisively in the direction of smaller government again, New Zealand will continue to stagnate.

When the state lets business develop in a free environment, history has shown that the benefits are overwhelming. In Britain and the United States, the nineteenth century produced a 90-year period of non-inflationary growth with enormous increases in productivity, wages and standards of living. The world may be entering a similar period now – the new century holds out the hope of a global era of market-driven growth.

Anglo-American capitalism, in those periods when it has been allowed to flourish, has transformed the expectations and aspirations of whole swathes of humanity. The evidence at the end of the century is that it has outperformed not just the collectivist economies but also the social democratic European model, the corporatist Japanese model and other so-called 'third ways'. If New Zealand is to face the future with any confidence, it must be allowed to flourish again. Business in New Zealand no longer operates in an economic museum, but it could do much more yet to raise the living standards of New Zealanders. All it needs is a positive business environment.

We know what works and what doesn't work. Which path will we go down? More state control or less? Higher taxes or lower? Poverty or prosperity? The risks are pretty clear. We have to take them seriously.