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**LABOUR AND THE ALLIANCE :
TIME FOR SCRUTINY**

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LABOUR AND THE ALLIANCE: TIME FOR SCRUTINY

This is a frustrating time to be a New Zealander.

In the first half of the 1990s, the country saw the benefits of several years of courageous and difficult economic reforms. As *The Economist* put it recently, New Zealand:

... transformed itself from one of the great disasters of modern macroeconomics into an object lesson for the conduct of economic policy.

Since then New Zealand has reverted to its tradition of mediocrity and muddle-through. First we rested on our oars, and now the current is taking us backwards. The outlook today is very different from what it was just two or three years ago. By the time the millennium comes around, we could easily be staring at an economic crisis again.

Ongoing change is inevitable for any successful economy. We either have the wit to understand and em-brace that reality, or we have change imposed upon us. New Zealand would not have had to go through the trauma of the 1980s if we had faced up to the need to change much earlier. We would not have relapsed into recession and fiscal stress at the end of the Labour government's term in 1990 if David Lange had not called

for a teabreak. The economy is now struggling after another teabreak and we are facing the same risks again, but to date no one has been listening to the warnings coming from right across the business sector. Will we have the sense to grapple with the problems and make changes ourselves, or will the coalition government's legacy be another case of change being forced upon us by the rest of the world?

Overseas commentators seem to understand the situation better than many of our own. The *Herald* spent last year telling us that New Zealand's economic framework was in fine shape, and accusing those who were saying otherwise of "white-anting" the economy. By contrast the *Australian Financial Review*, in a November editorial headed "More Reform Needed in New Zealand", hit the nail on the head when it wrote:

Unfortunately, reform has slowed sharply in the past three years. [Ruth] Richardson's departure in 1994 marked a turning point. Little has been done since, apart from the passage of the Fiscal Responsibility Act and some tax cuts. And now a system of proportional representation ... is hindering leadership and allowing fringe players ... to stymie further reform.

The signs of worse economic performance are all around us. The economy is into the third year of just 2 percent growth. The unemployment rate has climbed sharply from its 6 percent low in late 1996; some commentators are saying it will be back up to 9 percent within a couple of years. New Zealand now has a current account deficit of Asian proportions. The exchange rate has fallen by around 20 percent against the US dollar. Moody's has recently downgraded our credit rating outlook. Business and consumer confidence are back to 1992 levels.

There are other less tangible signs of slippage. Many of those who transformed the New Zealand business environment over the last 15 years have quietly folded their tents. Investment funds are reducing their New Zealand exposures. Investors like the American shareholders in Telecom are walking away, unable to understand why New Zealand has not maintained its efforts to build a successful economy. If we had remained a fast-growing, dynamic country, there is no way they could have decided to turn their backs on us.

Our present predicament is not due to the policies of Roger Douglas and Ruth Richardson, often unjustly called harsh and uncaring. The blame lies squarely with those who gave up on reform and cynically opted for a so-called 'kinder', 'gentler' way. Curiously, I don't hear the politicians and interest groups responsible for the slackening reform efforts celebrating higher unemployment, increasing welfare dependency and falling international confidence in New Zealand. More to the point, many of them still don't acknowledge the linkage between what they opted for and the worsening outcomes it has delivered. No one in the media or the general community is holding them to account for the results. Only when they do are politicians likely to change their stance.

Right through the past year the government has been in denial about the deteriorating outlook. It keeps telling us that 2 percent annual growth is at least better than New Zealand's earlier growth performance. It has stopped talking about its own targets of 3.5-5 percent growth (in the case of National) and 6 percent (in the case of New Zealand First). The minister of finance reacted angrily last year to Business Roundtable suggestions that New Zealand's credit rating was at risk. The government has downplayed the crisis in Asia, and the International Monetary Fund's warnings were met by bland assurances that all is well in the engine room. The parallels with the Muldoon era and a popular current movie about a ship that hit an iceberg should not go unnoticed. No one has pointed out that what the IMF said is what the Business Roundtable for one has been saying for three or four years.

Towards the end of last year, there seemed to be some political recognition of the need to stop the drift and move forward. We must hope that the change in the leadership of the National Party signals an intention to make a difference. The business community is waiting anxiously for initiatives which would restore confidence, of which by far the most important is action to rein in government spending. As yet there is no sign that the coalition is about to abandon its \$5 billion spending programme because it is excessive and of low quality, but only if it is forced to do so by events.

We must also hope that opposition parties will review their policies in the light of New Zealand's changed circumstances and the continuing trends in international thinking about what constitutes good economic management. Under MMP the business community has to be much more alert to possible changes of government and policies: governments are likely to change more often; there is no longer the same competition for the centre ground; and fringe parties can hold the balance of power. These days all parties' policies must be subject to close scrutiny.

So today I want to look at what an alternative government might look like, and in particular at what a Labour government or, more likely, a Labour-Alliance coalition might mean for New Zealand and New Zealand business. After all, an election is due within 20 months at the latest, and businesses have to be taking investment decisions with a horizon well beyond 20 months. A longstanding weakness of the New Zealand media is that there has been little scrutiny of the policies of the opposition parties, despite Labour's rise in the polls. Unless this changes, the public will not be helped to understand their consequences and to react in an informed manner.

The first thing to be said is that I believe many, if not most, in business will look at opposition policies in a fair and non-partisan way. After all, the Business Roundtable for its part was widely regarded as being on the side of the Labour government in the 1980s. This perception was wrong – we are a-political because we want to promote policies that are in the overall national interest, not the interests of a section of the community

– but we certainly supported the general thrust of the economic policies of the Lange/Douglas government. We judge others' policies on their merits. For example, we agree with the Alliance's opposition to the abolition of appeals to the Privy Council. On the other hand, a study which we published last year of the Alliance's proposed financial transactions tax concluded it was inefficient and unfair, and we hope it will be consigned to the Social Credit ark.

I think one concern of many business people is that it is hard to think of any prominent Labour or Alliance MPs with experience of modern business. Labour today is largely made up of academics, teachers, unionists and others with backgrounds in the public sector – which is the sector for spending and redistributing wealth, not creating it. There is no deep understanding in the party of wealth creation and the role of business and private enterprise. Contrary to Clinton and Blair who clearly understand that social objectives can only be fulfilled off the back of a strong economy – indeed that a strong economy creating a plentiful supply of jobs and incomes is the best social policy – the Labour Party seems relatively uninterested in the productive sectors of the economy.

Nor does there appear to be any great empathy with business within Labour. Tony Blair openly declared before the last British election that:

New Labour is now the party of business. The party of good housekeeping and prudent finances.

British business was clearly comfortable with the prospect of a Labour win. Many in business turned to Labour as the alternative to a tired Tory party, and Blair's government has reached out to business in implementing its programme. Earlier this month Blair had 200 of the country's top business leaders into No 10 Downing Street to discuss a training-based employment strategy. There are no signs of similar attitudes here: the opposition parties have few links with mainstream business, and there is no evidence that they are listening to business.

Next, I believe that, due to a lack of media scrutiny, there is little public recognition of the kind of people who could be influential in an alternative government. MMP has seen some extraordinary figures wash up in parliament on the basis of party lists. Alliance MP Laila Harre, for example, was a bitter opponent of Labour policies in the 1980s. During a Labour Party conference she advocated a U-turn in them, arguing that:

Stalin had achieved in 20 years what the West has taken 200 years to achieve.¹

Within Labour, Steve Maharey also opposed Roger Douglas's policies and argued for socialist alternatives in a book entitled *Alternatives: Socialist Essays for the 1980s*. Business obviously has to take into account the fact that these two MPs are prominent spokespersons for their parties and could be influential figures in an alternative coalition.

Last year there was a good deal of commentary about Labour's win in Britain, and Helen Clark was quick to embrace it as a portent of things to come here. Some editorial writers were sceptical, arguing that the British and New Zealand Labour parties were now as different as chalk and cheese. That view would appear to have a good deal of substance – it really is a New Labour and Old Labour contrast. The New Zealand Labour Party seems to have little affinity with the directions in which Tony Blair has taken its counterpart in Britain. It was symbolic that it invited to its annual conference last year the deputy leader John Prescott who represents sold-style trade-union Labour, and its affiliations appear to be with others on the far left of the party like Glenda Jackson and Austin Mitchell. On Brian Edwards's radio programme last month Austin Mitchell cheerfully acknowledged that whereas he was once regarded as being on the right of Labour, the whole party has shifted and he was the only Labour MP to oppose the government's legislation bringing in the UK equivalent of our Reserve Bank Act. Similarly, it was symbolic that Labour invited Hugh Fletcher to speak at its recent caucus; I am sure Hugh would cheerfully agree that his support for Keynesian spending programmes and inflationary policies makes him an outlier in the spectrum of New Zealand business opinion.

More generally, as Austin Mitchell's remark indicates, centre-left politics around the world has shifted enormously in the last 10 years, whereas in New Zealand the party

that was once a leader is now a laggard. Unlike its radical predecessors, today's Labour Party is reaching back to an era of failed policies. By contrast Blair has freely acknowledged the importance of the Thatcher economic reforms for Britain: wags have pointed out that 'Tony Blair MP' is an anagram of 'I'm Tory Plan B'. The party newspaper in China has written that Margaret Thatcher, like Deng Xiaoping, rescued her country from mindless ideology and "caused the world to rub its eyes"; Boris Yeltsin likewise acknowledges her historic importance. In the United States, Clinton has been described as presiding over Ronald Reagan's fourth term; for example, he was at first a reluctant supporter of welfare reforms but now embraces them.

While it remains to be seen whether Blair will deliver, he had the courage in opposition to engineer a massive realignment of British politics, overturn Labour's commitment to outdated policies such as state-owned industries, and see off the Scargillites. The defining point came early last year when Labour announced that if it were elected it would live within the Conservative's tough spending guidelines for at least two years and would not raise personal tax or VAT (GST) for a full five years. In New South Wales, Labour premier Bob Carr is pushing for party acceptance of electricity privatisation. Terms in opposition are an opportunity for parties to renew themselves, but that doesn't seem to have happened with New Zealand Labour. It seemed to spend its first two terms in opposition grieving and distancing itself from its 1980s achievements, and most of last year sleepwalking as many observers noted. From New Zealand's point of view, this is unfortunate: we need a vigorous, modern opposition. Labour has often been the party of ideas in New Zealand politics; today its ideas seem more like those of the 1970s. When Labour makes fiscal commitments along the lines of Tony Blair's, and invites British Labour radicals like welfare minister Frank Field to its party conference, it will deserve to be taken seriously.

Labour's unwillingness to embrace modern economic thinking was sadly apparent again this year in its reaction to the IMF report on New Zealand. Michael Cullen argued that the IMF had the right diagnosis but the wrong prescription. Its recommendations of lower government spending, deregulation in areas such as producer boards, labour-market, superannuation and welfare reforms, and more private sector competition in health, were obviously anathema to him. There are no signs that Labour is applying itself, as Roger Douglas did, to understand what is wrong with the economy and what needs to be changed.

Labour still seems firmly wedded to outdated big government, high tax and interventionist policies, despite the abundant evidence that they are a recipe for economic stagnation and high unemployment. Helen Clark's recent 'Big Picture' speech, which one commentator described as full of clichés, could have been written by Bill Rowling. Michael Cullen has long promoted Germany as an economic model. Germany is the most arthritic economy in the European Union; it is a country which is staggering under high tax and regulatory burdens with an unemployment rate of nearly 12 percent. Even though New Zealand is still a high tax country Labour wants tax increases, and the tax policy it put forward at the last election would make a nonsense of a tax scale which needs to be flattened, not widened, after this year's tax

cuts. Labour still seems to hanker after national plans, 'accords' with 'social partners', and 'industry policies' which were abandoned years ago in most other countries – even the former centrally planned ones. At a time when Asian countries are paying the price of crony capitalism, Labour seems to want more of it. There will be few takers in a New Zealand business community which rejected \$100 million of government assistance last year. The idea that spending more money on Tradenz makes sense as a response to the Asian crisis would be laughable if it were not made by a prime minister in waiting.

Yet it is difficult to understand why Labour seems stuck with such outdated positions. They have little to do with many of the party's traditions. In 1938, the heyday of Michael Joseph Savage, government spending as a proportion of GDP was 16.6 percent – well under half today's level – and the tax ratio was lower still. Roger Douglas's view of government is far more in line with the fiscal conservatism of Savage and Nash than the Clark/Cullen view. Tony Blair's government is presiding over a labour market that is freer than New Zealand's, with an unemployment rate of 5 percent as a consequence, yet Labour wants to repeal the Employment Contracts Act. Traditionally Labour was a party opposed to privilege, yet it is at one with National in pandering to rural interests over producer boards. Labour parties around the world do not defend state monopoly accident compensation schemes. Mike Moore has written that he was amazed to discover at a Labour branch meeting that half the parents had their children at private or integrated schools. Steve Maharey wants to cut tertiary student fees to around \$1,000, yet even the student representatives on the Todd committee accepted fees at a considerably higher level. Blair's government, by contrast, is standing up to single-interest groups, ranging from students to farmers to welfare lobbies, over reforms which the Con-servatives were too timid to introduce.

And so it goes: Labour seems a prisoner to ideologues and interest groups within its ranks which are oblivious to the interests of consumers and instead lobby for high public spending and state monopolies which benefit them. There is no focus in Labour's education thinking on low education standards. Steve Maharey recently made the inane claim that the Business Roundtable wanted a workforce of low skilled workers – what good would that do for business or the community? Labour's hostility to the role of the private sector in health is bizarre when you consider that GPs, pharmacists and other parts of the sector that work well are private. And the problem of welfare dependency won't be resolved by glib lines about blaming the victim or suggesting people have no control over their lives – unlike parties of the left elsewhere, Labour seems to be in denial about the reality that welfare incentives matter.

To be fair, Labour has distanced itself from the Alliance's even more outdated economic policies – Helen Clark has called them "a recipe for national poverty". You can imagine the decisions company boards and fund managers would make in a split second if they thought a party containing the likes of Laila Harre, Jeanette Fitzsimons or Pam Corkery was likely to get near the levers of power. The irony is that, at least in the longer run, owners of capital would be relatively unaffected by Alliance policies because they can put their money elsewhere; the worst hit would be the young, the old, the immobile and the unskilled – the kind of people the Alliance professes to care about.

Yet to be fair to the Alliance, its policies are not quite as bad as those of Muldoon; it's just that they are totally out of line with the needs of a small country in today's integrated world economy. That comparison indicates how far things have changed in 15 years: the opposition parties have to varying degrees been stuck in a time warp, while the rest of the world has moved on. The difference between Labour and the Alliance is only one of degree – both are looking backwards at failed policies, not forward towards policies for the twenty-first century.

And that, in my analysis, is the basic problem for New Zealand and for all of its political parties today – even ACT has not got over its itch to force people to do things for their own good. For over four years now New Zealand has had a policy teabreak while other countries have been implementing similar reforms, catching up and then overtaking us. In few areas are we any longer leading-edge, and investors and business people are starting to vote with their feet. Yet a small, isolated country has to stand out as exceptional – better than the rest – if it is to compete strongly and attract and retain investment and innovative people in today's world. We learned in the first half of the 1990s that we can compete internationally, but only if we behave like the All Blacks and maintain peak fitness, continually improve our strategies and stay determined to succeed.

In their more open moments, National MPs will admit privately that their party has just muddled along in recent years, but their last line of defence is that the political alternatives would have been worse. They may well be right, but their argument cuts no ice with those in business who know the country could be doing far better. For them, the issue is not which party is in office but when real political leadership will emerge and move the country forward again. We elect governments to govern – not to sit on their hands and make excuses for inactivity. We understand what politicians like to tell us are political realities, but for business and the living standards of New Zealanders the bottom line consists of social and economic realities. On present indications, it has to be said that the prospects for improvement in them are not encouraging.

First, as I argued at the beginning, the government has shown little recognition to date of the dangers now confronting the country and the scale of the responses that are needed. Jenny Shipley and the Treasurer can expect business sector support if they face up to the challenges, but they have yet to take the lead.

Secondly, the policies of the opposition parties are even more out of line with what the country needs. Business will be watching closely how they evolve this year, and will be scrutinising the candidates they select for the next election. If they do not come up with quality candidates who understand business and the economy, and if polls suggest they have a chance of winning, markets will very quickly take fright.

Thirdly, we are still plagued with MMP. The electorate thought it was punishing politicians by voting in MMP, but in reality it punished itself. It is too easy for National Party politicians in particular to blame all of the present muddle on MMP and coalition

government. Nevertheless, as Graeme Hunt's excellent book argues, MMP has to go if we are to escape paralysis. It will be interesting to see whether influential news-papers like the *Herald* which campaigned so forthrightly for MMP are prepared to change their view now they can see what it has delivered.

Finally, the task of turning around the habits and mindsets of a country conditioned by decades of state control and dependency can never be overestimated. It is comparable to the even greater struggles going on today in Russia and Eastern Europe. As a leading Eastern European reformer has remarked:

It's a total misunderstanding to expect that after the end of one system, a new system will begin to function efficiently the next day, as if nothing had happened.²

Similarly a writer on Russia has written of the "uncertainty as to the degree to which [Russians] want to be part of the outside world" and "the cultural attitude that the market is anathematised for present failure while socialism is idealised for past security."³ Americans and Asians have not suffered from a socialist legacy, which is why the United States remains strong and why most Asian countries are likely to bounce back quickly from their present difficulties. Asians are prepared to work hard and save, and they are not driven by envy. In this they are more like younger New Zealanders: young people are not typically Alliance voters, and Asian immigrants tell me they will be on the first plane home if the Alliance ever achieves political influence. But our politicians and media have failed to get across to the older New Zealanders who write letters to newspapers and appear on 'Sunday Supplement' every week that their attachment to big government, high taxes, socialised health and education and the regulated economy is putting at risk the prospects of the next generation.

Right now I believe the best scenario for New Zealand would be for the coalition government to embark on a vigorous programme to lift New Zealand out of the doldrums. That might also give it the best chance at the next election, and even if it lost it would be looked back on with respect in the history books. That scenario would be even better if Labour embraced a forward-looking programme.

Paradoxically, one could argue that the next best scenario after the next election would be a coalition with the Alliance having an influential role. The consequences of its policies would be devastating, but at least they would become instantly apparent. Those who had warned of them would get a new hearing, and the policies might quickly be reversed.

The third and arguably worst scenario would be a continuation of muddle-through. The worsening trends would continue until markets revolt and New Zealand is forced to learn the hard lessons all over again. With MMP and without stronger political leadership, that seems to me the most likely scenario at present.

That is why I say this is a frustrating time to be a New Zealander.

¹The Evening Post, November 7, 1987.

²Vaclav Klaus (1997) Renaissance: The Rebirth of Liberty in the Heart of Europe, Cato Institute, p15.

³John Lloyd (1997), Rebirth of a Nation: The Anatomy of Russia.