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THERE'S SOMETHING (WRONG) ABOUT TINA

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THERE'S SOMETHING (WRONG) ABOUT TINA

In a *Forbes* magazine column a few years ago, the American economist Thomas Sowell wrote:

If there were a prize for the most dishonest phrase in politics, the competition would be fierce and the outcome very uncertain. However my nomination would be the phrase 'trickle-down economics.' The trickle-down theory is supposedly the notion that the way to benefit the poor is to have the government provide benefits to the rich, which will then trickle down to the poor. But there is simply no such theory – not in Adam Smith, not in John Maynard Keynes, not in Milton Friedman. Not in anybody.

To my knowledge, no serious participant in public debate in New Zealand has ever espoused the notion of 'trickle-down economics'. Yet that has not prevented people from Ken Douglas to Kim Hill applying the label to this country's economic reforms.

A equal candidate for the prize for dishonesty in a New Zealand setting is TINA. Supporters of the reforms are said to have claimed that 'There Is No Alternative'. Again I know of no one who has ever made that claim in the sense that it is meant – some kind of dogmatic belief in the 'One True Way'. Yet the allegation is recycled time and again – most recently, for example, in a book by University of Auckland Professor Tim Hazledine.

Strictly speaking, New Zealand had a choice of sorts even in the mid-1980s. Even though its command and control economy was rapidly seizing up, it could have applied more band-aids and staggered on a bit longer. Nothing has so far forced Cuba and North Korea to change direction. But the price would have been high – a continuing slide in relative living standards, growing debt and increasing risks of economic crisis. The reality was that New Zealand had to change direction if it wanted to stay in the ranks of advanced countries.

I think few New Zealanders under 60 would have much argument with that proposition. Nancy Devlin, an economist at the University of Otago, recently wrote that for students today:

... the pre-1984 period seems to be viewed as a kind of quaint aberration from common sense. Contrast this to our experiences as

undergraduate students in New Zealand in the early 1980s: learning about the workings of free markets was like listening to wonderful 'theory tales': it sounded compelling but there was no evidence that such things really existed.

It is also worth noting that there is not a single OECD country that has not gone in the same general direction as New Zealand. Efforts to curb inflation, bring more discipline into public finances, reduce high tax rates, deregulate markets and privatise state-owned businesses have been common to all of them, and such trends extend well beyond the OECD. I do not see the recent turmoil in some Asian countries reversing these trends. If anything, I suspect it is likely to give a new impetus to liberalisation, as indeed we have already seen in several Asian countries.

But to argue that there was no alternative to change but stagnation and crises is not to argue that some detailed set of alternative policies was preordained. At the outset many choices had to be made about how to exit from the wage and price freeze, and about the speed and sequence of moves to free up the economy. Not all of them were well made – the Labour government's refusal to deregulate the labour market, for example, caused much unnecessary unemployment. And on an ongoing basis there is a vast range of economic and social policies on which governments have to make choices, even for supporters of limited government. The choices can and should vary in the light of developments in economic understanding, prevailing values, changes in the world around us, technological developments and a host of other factors. Moreover, the choices are not static or, to put it another way, there is no end to potential reform if we are interested in ongoing improvements. For example, there are obviously different options for running our telecommunications and roading systems today than there were 30 years ago.

What's more, there has been vigorous and open debate about the reform programme, both by opponents and supporters of its general thrust. Such debate is healthy, vital and will certainly continue. It is absurd to suggest that it has been suppressed – can anyone seriously suggest trying to suppress Gareth Morgan, Frank Haden, Jane Kelsey or Brian Easton? And who would want to? – sound conclusions can only get hammered out on the anvil of debate. Complaints about suppression seem to come only from those whose arguments have failed to gain support.

Looking back over the past 15 years we can see that each and every one of the major reforms was fiercely opposed, usually by various academics and independent

commentators as well as by interest groups. Today most command a reasonable measure of agreement or acquiescence. But along the way many alternatives were put forward, and it is interesting to see how they have fared. Let me run through a very short list of examples.

A starting point might be the Treasury's 1984 post-election briefing paper, *Economic Management*, which is sometimes seen as providing the framework for the reform programme. This was roundly condemned by a group of economists at Victoria University. One of their major criticisms was directed at the idea of a floating exchange rate – they defended a fixed rate regime. No competent economist would argue that floating exchange rates are the best option for all countries in all circumstances, but the overwhelming majority of economists today see them as an effective monetary arrangement for many countries. Attempts to maintain fixed exchange rates at levels which were not credible were a major cause of the recent turmoil in Asia. I shudder to think of the difficulties New Zealand would be facing today, and would have faced on many occasions in the past dozen years, had we persisted with a fixed-rate regime.

In respect of labour market arrangements, many argued in the 1980s that New Zealand should adopt an Australian-style 'Accord' – a centralised agreement between employers, unions and the government. A similar Swedish model was admired at the time; Bryan Philpott was a prominent advocate of incomes policies; and as prime minister Mike Moore tried to introduce a variant called a 'Compact'. Who pushes such ideas today? Even in Europe governments are trying to free up their inflexible labour markets.

Linked to incomes policies were old-style Keynesian ideas of manipulating the economy through fiscal policies to try to maintain a stable growth path. In 1991 15 academics at the University of Auckland lambasted the 1991 budget saying:

We wish to state in the strongest possible terms our view that in the present state of the economy, and in the midst of an international recession, the deficit-cutting strategy is fatally flawed. It can only depress the economy further

Within months the economy was on a strong, export-led recovery path, partly because of the better balance between fiscal and monetary policy. Keynesian remedies have long been thoroughly discredited. If government spending were the means of pulling an economy

out of a slump, how come New Zealand is in a recession this year despite the coalition government's \$5 billion spending package? And yet there are still some who haven't figured out that higher government spending is the problem not the solution, and who resist arguments to cut it.

Coming to monetary policy, we had to put up for years with those who told us that New Zealand was an aberration with its 'obsession' with low inflation. Critics like Winston Peters and Sir Robert Jones said we should abandon ideas of price stability and target the inflation rate of our trading partners. Well, over the past 10 years most OECD countries have progressively adopted approaches to monetary policy which are in substance very similar to New Zealand's, and have achieved equally low inflation rates. Many have adopted an explicit price stability objective – most recently the European Union countries that are moving to the Euro. Even if it had any merit – which it doesn't – the suggested alternative rule would make little practical difference today.

Winston Peters also campaigned for activist 'industry policies' rather than a so-called level playing field approach under which policies do not favour particular industries. The Labour Party still promotes this alternative. One of Mr Peters' favourite models was MITI, the Japanese Ministry of International Trade and Industry. Scholarly articles going back 20 years or more had debunked the 'myth of MITI', pointing out that it was not the explanation of Japan's earlier success and that it had picked losers at least as often as winners. Subsequent events in Asia have exposed the risks of 'crony capitalism' that are always inherent in government industry policies.

Fifteen years ago a serious alternative policy for industry development that was still strongly promoted was import protection through licensing and tariffs. Today there is a solid consensus among economists in favour of free trade. The only academic economist I know who still argues for tariffs is Tim Hazledine, and even he has been reported as suggesting a "moderate" level of 5 percent. If that is where the debate has got to, it's hard to understand what the sound and fury is all about. Tariffs of 5 percent would barely make a difference to the competitive position of New Zealand firms in industries where low labour costs matter, would mean exporters continued to be taxed, and would merely keep many bureaucrats and staff in importing firms unproductively employed in customs administration.

Another 'alternative' policy for international competitiveness which mercifully seems to have fallen by the wayside, at least for the time being, is exchange rate intervention. The leading proponent of this strategy to correct a so-called overvalued exchange rate was the former Dairy Board chairman, Sir Dryden Spring, although he never told us exactly how it would be implemented – inevitably it would mean sacrificing an inflation objective. In the light of what we now know about its recent hedging policy, this appears to be an example of the Dairy Board saying one thing and doing another and costing farmers a bundle. Yet Sir Dryden has recently been maintaining that proposals to deregulate export monopolies are a "gigantic economic hoax"; it seems he still does not understand how competitive markets actually work.

A final example of an issue on which alternative views have been strongly contested is corporatisation and privatisation. Initially people like Mervyn Probine, former chairman of the State Services Commission, and the public sector unions staunchly maintained that there were no benefits from corporatising departments like the Post Office. Then when the gains from corporatisation were apparent to all, the critics shifted ground and argued against privatisation. There are still many opponents of privatisation, despite the post-privatisation cost reductions and improvements in service in organisations like Air New Zealand, Telecom and Tranz Rail. At base their views reflect a lingering attachment to the socialist belief in "public ownership of the means of production, distribution and exchange". This is more entrenched here even than in Australia, which has made more progress on privatisation in recent years.

What is apparent from this brief review is that there has been no shortage of alternatives to the reforms on the part of the critics, even if most of them haven't stood the test of time very well. Conversely, those who have broadly supported the reforms have proposed many alternatives that have not been taken up. For example, the Business Roundtable has advocated the abandonment of state monopoly provision of accident compensation from the time of a 1987 report, yet such moves are only now being partially implemented and may be overturned by a Labour government. Similarly, no moves towards alternatives to producer boards have yet been decided. To take a different kind of example, we argued for several years against the alternative approach to education qualifications based on unit standards promoted by Lockwood Smith as minister of education. It is pleasing to see that Wyatt Creech has now abandoned it in favour of a more balanced use of external examinations and internal assessment. But in many areas of education, health and welfare policy, alternatives which we have canvassed have made little headway, yet community dissatisfaction with these services remains as high as ever.

What also needs to be said is that there are areas of economics where there can be legitimate debate about the best policies. Disagreements amongst economists are often greatly exaggerated: it would be fair to say that there is a high level of professional consensus on such things as the case for low inflation, free trade and open capital markets and on the case against price controls, minimum wages and large budget deficits. Moreover, with the abandonment of Keynesianism and central planning there is a greater consensus today than for several decades on the policies needed for good economic performance. Nevertheless, competent economists differ within limits over issues such as the optimal level of government debt, the regulation of natural monopolies and the effects of a social welfare safety net, and there are issues such as immigration where perspectives other than purely economic ones must be balanced up. Another issue for legitimate debate is the speed with which desirable changes should be implemented: areas where this issue arises include lower tariffs, higher tertiary education fees and more restrictive superannuation benefits.

So looking at the picture overall, the idea that the policy debate in New Zealand has been snuffed out by some evil fairy TINA – 'There Is No Alternative' – is rhetorical nonsense. People who engage in such rhetoric, like those who make claims about 'trickle-down economics', cannot be taken seriously as objective commentators. They may win a few propaganda battles by such tactics but they should not complain if their views gain no traction in the long run. The fate of different arguments over a long period of time should by now enable bystanders to make up their minds as to which protagonists have credibility and which don't.

The issue, I have argued, is not whether there are alternatives: clearly there are, and alternatives have been vigorously promoted by all protagonists in the debates. Rather, the issue is which alternatives have merit. In economics, as in most sciences, alternative remedies are always on offer. New Zealand experimented with quack prescriptions for many years; only in the 1980s did we start adopting some conventional cures. Unfortunately our track record more recently has been to abandon the prescriptions once signs of good health returned and then to wonder why we are ailing again. And as always in such situations, those peddling failed nostrums are quick to reappear.

As I read it, the evidence is continuing to accumulate that the countries that are faring best in the modern world are those that are continuing to work towards greater economic

freedom and smaller government. Some New Zealanders have been puzzled that Australia has been weathering the recent economic storms better than New Zealand, but they have failed to notice that fiscal management has improved in Australia whereas it has deteriorated badly in New Zealand, and that in many areas of economic liberalisation Australia has overtaken New Zealand or was always ahead. In the latest *Economic Freedom of the World Report*, Australia's ranking on the index of economic freedom rose to eighth position, from 24th in 1975. Ireland, another big improver, also tied for eighth place. The Asian countries which rank highest, Hong Kong, Singapore and Taiwan, are the ones that are coping best with the turbulence in that region. Also, contrary to the concerns of the critics, research suggests that economic freedom tends to reinforce social cohesion rather than damage it, and disproportionately benefits the poor.

So while TINA belongs in fairyland, the evidence indicates that the alternatives on offer would lead to very different futures for New Zealand. If the electorate wishes to vote for alternative remedies – for inefficient policies such as public ownership, controls on foreign investment and higher taxes – we should all be happy to respect the democratic verdict. But MPs, mayors, bishops and others should not then complain when problems of poverty and unemployment worsen, social services come under greater pressure and the young and mobile look for a better life abroad. Economics tells us these trade-offs are inescapable. We may choose wisely between alternatives, or not well.