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**IS NEW ZEALAND ON THE RIGHT TRACK OR
THE WRONG TRACK?**

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IS NEW ZEALAND ON THE RIGHT TRACK OR THE WRONG TRACK?

Every couple of months, for many years, the *National Business Review* has published the results of a poll which asks the question: "Generally speaking, are things in New Zealand heading in the right direction or are they off on the wrong track?"

I think this is a very interesting indicator, and I understand it is watched closely by politicians. What does it tell us about the public's perceptions of the country's directions over the past five years?

If we go back to mid-1994, we find that a substantial majority of people thought New Zealand was on the right track. In both May and July of that year, 60 percent said New Zealand was going in the right direction compared with 27 percent who said it was not (13 percent were unsure).

The year 1994 marked a decade of economic reforms in New Zealand. The economy grew that year by 6 percent, having grown by 5 percent the previous year. Unemployment was falling sharply, inflation was low, the current account deficit was around 1 percent of gross domestic product (GDP), and the budget was in surplus. The reforms were paying substantial dividends.

But 1994 was also the year in which the Bolger government, shaken by the 1993 election result, dropped the ball. It called a halt to any serious efforts to continue to strengthen the economy and New Zealand's competitive position. It started to increase government spending substantially, and the fiscal incontinence of the subsequent coalition government has seen the budget surplus all but disappear. In recent years, as the OECD pointed out in its recent report on New Zealand, efforts to move ahead with other necessary reforms have been "stop-and-go". There has been far more talk than action.

The failure to maintain a coherent, medium-term strategy for economic growth since the early 1990s has resulted in a deteriorating economic performance. The economy recorded negative economic growth in the year to March 1999, and is now in only a moderate recovery phase. Unemployment has risen from its 1996 lows, the current account deficit is at a worrying level, and external debt is around 100 percent of GDP, a high ratio by international standards. New Zealand has fallen back to 20th position in the IMD rankings of international competitiveness due to two parliamentary terms of economic mismanagement. It is hardly surprising that the export sector is weak and the economy as a whole is struggling.

How has the public reacted to this loss of momentum and direction? In my interpretation, very intelligently. The number of people who think New Zealand is on the right track has fallen steadily since the mid-1990s, although there have been fluctuations along the way. In the latest *NBR* poll, 49 percent think New Zealand is on the wrong track compared with 41 percent who think it is heading in the right direction. Until the recent recovery, the 'wrong track' numbers were even higher.

Within these trends, it is interesting to note that younger people have been generally positive about the country's directions and people over 60 have been more pessimistic. Much of the criticism of the changes in New Zealand since 1984 has come from the older generation. It is a widely observed phenomenon that the young generation tends to favour change, even if it inflicts short-term cost, provided it offers the prospect of longer-term yields. The old tend to resist change. If you read letters to the editor columns for a few months you can work out that a few dozen people 60 years of age or over write all the time lamenting the changes and expressing nostalgia for the past. The recurring sentiments are anti-trade, anti-foreign investment, anti-privatisation, anti-immigration and anti-wealth. The Alliance and, until recent times, New Zealand First have received disproportionate support from this group.

You can see very much the same pattern of reactions internationally. In Australia it has taken the form of a backlash against so-called 'economic rationalism' and support for Pauline Hanson's party One Nation. In Britain the older generation has never

come to terms with the Thatcher revolution. And in Russia and the ex-communist countries of eastern Europe there is deep resentment among many of the elderly about the moves to a market economy and support for ex-communist and nationalist parties.

On the other hand, the attitudes of younger people in New Zealand are mirrored among younger people elsewhere. A recent article in the *Spectator* reported the prevailing attitudes in Britain among Generation X (those born in the 1970s) in the following terms:

Generation X favours a society where the state's role is significantly smaller than it is today. For young people government is not part of the solution but is part of the problem. ... [T]he emphasis is on individual responsibility, economic liberty and social freedom.

The article gave as an example of changed attitudes the views on student fees in Britain. It said:

The apathy over the introduction of student fees proved that the days of marches are over. In fact, fees are a welcome move for many. Students have become customers with bargaining power, more able to demand improved academic facilities and student services.

And the article went on to report evidence that "A striking 51 per cent desire to own their own businesses, reflecting a move away from the 'jobs for life' mentality of the past." Taxes and regulation were seen as barriers to success and deterrents to innovation, hard work and enterprise. It concluded with the comment: "The challenge for the rest of society is whether it continues to alienate its young people or sits up and listens to them."

A similar debate is going on in New Zealand. Last year Douglas Myers, speaking on behalf of the Business Roundtable, referred to the kind of arguments about New Zealand's direction that can be heard at any Grey Power rally, noting that "Many of the same generation that ran New Zealand into the ground by the early 1980s push an agenda that would do the same again." This drew a response in the form of an article

'The Roundtable is wrong' by Don Robertson, president of Grey Power, in that organisation's magazine. Let me address his arguments to see where we disagree, and also where we may have some common ground.

The article led off with a couple of frequently heard criticisms about New Zealand's reforms. It claimed that the economic pain had been felt by most New Zealanders but the gains had accrued to only a few. It was perhaps rather unfortunate for Don Robertson's argument that his article appeared on the same page as a large advertisement for a 7-day 'Tropic Treat' holiday in Queensland. Presumably at least some members of Grey Power have enjoyed some of the gains.

The idea that the gains have only gone to a fortunate few is a gross overstatement. To be sure, the recent Statistics New Zealand study confirmed that there has been a premium for skills in the new economy and that increases in household incomes have been greatest in the top deciles. But it also confirmed that there was no fall in the share of income of low income households. It also has to be remembered that a significant part of the gains from economic growth went to repaying public debt, which is a genuine benefit to the whole community, and to higher spending on health and education, sometimes called the social wage. Average weekly earnings have risen from \$564 in May 1991 to \$682 in February this year. Low income earners have benefited from two rounds of tax reductions, and most households have benefited from cheaper imported products, including cars. Grey Power should examine the facts more dispassionately. I can agree with Don Robertson, however, that the overall gains are not as large as they would have been had New Zealand maintained the rate of progress it was making up to the mid-1990s, and as large as they could be if the economy were operating at its true potential.

Secondly, the article complained about the 'market model' that New Zealand has adopted and argues for a "more people orientated approach". We might begin by asking what country has not been moving in a more market-oriented direction in the past 15 years, apart from a handful like Cuba and North Korea. Furthermore, no one who has argued for more reliance on markets denies there's an important role for

governments. Indeed we might agree with Grey Power that by getting involved in far too many functions, governments have been performing some of their core roles badly, such as giving elderly people the security they deserve in their homes. And on the people issue, I share the reactions of the Australian columnist Ross Gittens who wrote recently in the *Sydney Morning Herald*:

It always annoys me to hear people saying we worry too much about the Economy and not enough about People. It's as though they imagine there's this utterly impersonal thing called the economy on one side, and all the people on the other.

But the economy is us. No people, no economy. An American economist of the '60s, Herbert Stein, said: "GNP is what ensues when 100 million people get up in the morning and go to work."

The economy is no more than the business of producing and consuming goods and services. All of us work in that business.

Gittens might have added that those who profess to be concerned about people, and in particular about those in hardship, ought to take an interest in how to grow community wealth.

I expected the rest of Don Roberston's article would lay out an alternative agenda to what he calls the 'market model', but I was disappointed. The only significant themes are that we should give more tariff protection to our industries and that we should be more like Australia in our economic policies.

On tariff protection Grey Power has clearly still not come to terms with the fact that fortress New Zealand and fortress Australia policies caused both our countries to fall well down the per capita income tables over the past 50 years. Australia started to dismantle its protective walls much earlier than New Zealand. It abandoned most import licensing in the 1960s, and Gough Whitlam's Labor government cut tariffs by 25 percent in 1973. More recently Australia has been reducing tariffs at a similar rate to New Zealand, and the two countries' tariff structures are currently very similar. New Zealand is removing all its tariffs by 2006 and Australia is committed to full free trade by 2010. Hardly a big difference here.

Both New Zealand and Australian governments have long since realised that protection does nothing for job creation, contrary to the views of Grey Power. By raising costs it makes other industries, particularly export industries, less competitive and less able to create jobs. By misallocating resources into industries that are only profitable with protection and away from industries that can stand on their own feet, protection undermines economic growth and makes jobs harder to create. Since 1991 more than quarter of a million net additional jobs have been created in New Zealand, far offsetting those lost through closures in industries such as motor vehicles and clothing. Grey Power's policies would reduce economic growth and see many more New Zealanders out of work. Its concerns about employment should instead be focused on policies for economic growth and for making the labour market work better.

Australia has been following very similar policies to New Zealand on trade, but has it been following different policies in other areas? Generally speaking, the answer is an overwhelming 'no'. Australia began some of its reforms earlier than New Zealand. It did not face an economic crisis as New Zealand did in 1984, and therefore did not have to undertake such drastic restructuring. But looking at the two countries over the past 15 years, what stands out today is, first, the similarities in the two reform programmes and, secondly, the fact that Australia is now ahead of New Zealand on many fronts.

Consider a short list of key policies:

- Australia and New Zealand are following almost identical monetary policies and have both achieved low inflation.
- Both countries have floating exchange rates and almost fully deregulated financial systems.
- Australia has a budget surplus whereas New Zealand is struggling to restore

one.

- Australia has much lower government expenditure relative to GDP than New Zealand – 32.6 percent this year at all levels of government compared with 41.5 percent in New Zealand.
- Australia has moved its tax system in much the same direction as New Zealand, and has now adopted a goods and services tax (GST).
- Australia has been one of the world's leading privatisers in recent years whereas New Zealand has made slow progress in this area.
- In infrastructure such as electricity, water and roading Australia is well ahead of New Zealand in adopting commercial models and moving towards private sector provision. Australia has privatised all of its main airports except Sydney.
- Spending on welfare and pensions is lower in Australia than in New Zealand. Australia has an income and assets tested pension scheme.
- New Zealand is ahead of Australia in achieving a decentralised, enterprise-focused labour market, but Australia is catching up. It has abandoned centralised incomes policies and is making substantial progress in former industrial relations black spots like the waterfront.
- Most observers agree that Australia has a better education system than New Zealand, at both the school and university levels. About 30 percent of Australian children go to private schools and the government is pushing for more competition and choice, whereas the New Zealand government has, with the integration of most private schools, increased its monopoly of education.

This list indicates that Don Robertson's claim that Australia has been on a different track from New Zealand is clearly wrong. Australia has done virtually all that New Zealand

has done and more. It has kept on keeping on rather than engaged in stop-go reforms. After its period of serious reforms New Zealand was performing better than Australia in the mid-1990s but the roles have now been reversed. Australia was 16th in the IMD world competitiveness rankings in 1995 when New Zealand occupied the 9th spot, but is now in 12th position compared with New Zealand's 20th. The price New Zealand has paid for the economic mismanagement of recent years was a much less resilient economy when the Asian crisis hit us and a poorer outlook than Australia in the medium-term future.

Don Robertson ended his article by saying "Grey Power advocates a return to the past only in the sense that there is a need to return to a fair and equitable society." I share his concerns for fairness and I agree there are aspects of a fair and compassionate society that we have lost. For example, I believe state welfare has crowded out many forms of family and voluntary welfare with worse results. Old New Zealand was characterised by values like self-reliance, independence and thrift that deserve our respect. I also believe that labour legislation up to the 1970s, which gave wide freedoms to workers to quit unsatisfactory jobs and employers to fire unsatisfactory or redundant workers, contributed to full employment, and thereby provided both employers and employees with greater protection against injustice than the cumbersome regulations in place today.

At the same time, however, old New Zealand was characterised by far more social and economic privilege than is the case today, as well as more repressive attitudes towards women, Maori and other minorities. Twenty years ago married women couldn't get a loan from a bank unless it was guaranteed by a man. There was also a great deal of slackness and many lazy work habits, most famously symbolised by the seagull on the wharf and the Ministry of Works roadman leaning on a shovel. In a recent letter to *The Press* a 1950s Dutch immigrant reported a common experience of the time – New Zealand 'workers' complained that he worked too hard. And I strongly disagree with Don Robertson's implied suggestion that interventionist economies score more highly on the grounds of equality. As Milton Friedman explained in *Free to Choose*:

In the past century a myth has grown up that free market capitalism – equality of opportunity as we have interpreted that term – increases ... inequalities, that it is a system under which the rich exploit the poor.

Nothing could be further from the truth. Wherever the free market has been permitted to operate, wherever anything approaching equality of opportunity has existed, the ordinary man has been able to attain levels of living never dreamed of before. Nowhere is the gap between rich and poor wider, nowhere are the rich richer and the poor poorer, than in those societies that do not permit the free market to operate. That is true of feudal societies like medieval Europe, India before independence, and much of modern South America where inherited status determines position. It is equally true of centrally planned societies, like Russia or China or India since independence, where access to government determines position. It is true even where central planning was introduced, as in all three of these countries, in the name of equality.

I conclude, therefore, that a good deal of Grey Power's thinking is misplaced and outmoded, and that the organisation would do well to consult mainstream economic sources and experts and update its policies. It should also listen to what the younger generation here and around the world is saying and doing about its aspirations and desires – a disturbing number of skilled and entrepreneurial people are currently leaving this country. And it should make common cause with other organisations that have gone through similar disciplines in framing their policies. We have been pleased to work with like-minded groups, and indeed have been involved with Grey Power in Christchurch on submissions on local government in that city.

Certainly Grey Power should take that approach if, as Don Robertson says, "Our main concern is for the future for our children and for our children's children". That has not been the consistent track record of his age group, as David Thomson documented in his book *Selfish Generations?* He showed that what he called the "welfare generation" – those born between 1920 and 1945 – drew far more from the common pool than they contributed. They left a legacy of debt for the next generation to repay. The next generation – and I daresay I am one of them – has had to repay that debt as well as pay through taxes for the pensions of those in retirement that were never funded, plan for their own superannuation, pay some of the costs of their children's higher education,

and much more. I for one have accepted that outcome, in the belief that there was no other way to reconstruct a viable New Zealand.

Whether members of the retired generation genuinely have the interests of the country at heart or are just concerned about their own interests, I suggest they should be strong advocates of policies that can make New Zealand a dynamic, vibrant economy. The only way any generation will achieve income security in old age is through economic growth. I support the concept of a social safety net, but no level of state-funded superannuation can be guaranteed in a stagnant economy. The lessons of how to achieve modern economic growth are well-established. If all groups could study and embrace them, I believe there would be a stronger political constituency for progress in this country and less divisiveness between groups who should share common interests. New Zealand was on the right track in the second half of the 1980s and early 1990s, it has departed from it to its cost, and it needs to get back on track again.