

EMBARGOED UNTIL 2.00 PM WEDNESDAY 11 AUGUST 1999

**TAURANGA CHAMBER OF COMMERCE**

**WAKE UP NEW ZEALAND**

**DOUGLAS MYERS  
CHAIRMAN  
LION NATHAN LIMITED  
MEMBER  
NEW ZEALAND BUSINESS ROUNDTABLE**

**TAURANGA  
11 AUGUST 1999**

## WAKE UP NEW ZEALAND

Recently a newspaper column by former *Metro* editor Warwick Roger made me sit up and think. It was a kindly reflection on the late Bruce Jesson, a fellow journalist and non-stop critic of most of New Zealand's economic changes in the past 15 years. Warwick Roger wrote that, to the best of his knowledge, Bruce Jesson had spent the whole of his career in New Zealand – not once had he left the country.

If Warwick Roger is right, it may explain a lot about Bruce Jesson's writing and much of the ongoing political debate in this country. People speak of the tyranny of distance, by which they mean New Zealand's remote location, far from major world markets for exports and imports. That is something of a handicap, but even at a time when transport and communications were far slower and more costly than they are today, it did not prevent us being a high income country. Much more important in my view, as Bruce Jesson's writing demonstrates, is the tyranny of insularity, bred of decades of Fortress New Zealand policies and an intellectual climate cut off from developments abroad. This continues to make it extremely difficult for many New Zealanders to come to terms with trends and thinking in the world around us.

When I look back, I reflect on how many of my own formative experiences came from the time I spent living or working in other countries, absorbing lessons about them through reading, and trying to understand New Zealand, its problems and its opportunities in relation to the rest of the world.

In my own business, the liquor industry, for example, I was struck decades ago by the more civilised approach to drinking in European countries whose legislative regimes were far more liberal than New Zealand's. Parliament deserves credit for its recent decision to abandon another element of New Zealand's repressive past. But it has taken years to catch up, and despite the evidence from abroad – and at home since legislation was relaxed in the late 1980s – many people in our universities and elsewhere still fail to see the link between greater freedom and more responsible behaviour, and the need for properly targeted rather than blanket sanctions.

Take, as another example, the decades of public dissatisfaction with outcomes in health, education, welfare and ACC. In all these areas government ownership, provision, regulation and funding dominate. Some, like Jim Anderton and Sandra Coney, spend much of their careers attacking the outcomes produced by big government. But extraordinarily, despite the size of government and the high tax burden in this country, it is an article of faith to them that big government can be made smarter and that we would do better with even bigger government. They seem to have learned nothing from the collapse of the centrally planned economies and the failure of the welfare states of Europe.

To anyone remotely familiar with the rest of the world, the changes in New Zealand over the past 15 years should have come as no surprise. No Western country had carried state intervention in the economy and cradle-to-grave welfare anywhere near as far as New Zealand. Over the past 20 years, every country in the OECD without exception, and many others besides, have been moving in the direction of deregulation, privatisation and generally greater economic freedom. Anyone who has spent time in Australia, the United States, Britain, Asia and even Europe has seen these developments with their own eyes.

Recently there have been a number of articles in newspapers reflecting on 15 years of economic change in New Zealand since July 1984. Some commentators have tried to persuade us that the reforms have failed. They play games like lumping in the years of restructuring in the 1980s when the economy barely grew with the subsequent period of expansion and telling us that the average growth rate over the period has not been much better than in earlier years. This is like saying that Russia and the Eastern European countries were wrong to embark on a transition to a market economy because measured output in all of them initially slumped – in Russian's case by around 50 percent – and in some cases has still not recovered to previous levels. But such people are getting a hearing because there is a vacuum of leadership putting the issues in perspective, and because New Zealand's level of understanding about the realities of international economic success still has a long way to go.

The fact is that when a consistent economic framework was finally put in place in the early 1990s, the economy grew strongly and practically all other indicators – inflation, unemployment, the fiscal position and our credit rating – improved significantly. Over the four years 1993-96, the economy averaged 4 percent growth and we outperformed Australia. Over the decade as a whole the trend rate of growth has been roughly 3 percent and the economy looks likely to grow at about that rate in the next few years. This is respectable by international standards and a far better performance than we were previously capable of achieving.

But having said this, the further point to make is that we have lost our way badly over the past two parliamentary terms and the country is suffering as a direct result. Looking back, we can now see that New Zealand was really serious about economic reform for only about five of the past 15 years – under Labour from 1984 to early 1988 and during the first 18 months of the National government which came into office in 1990. For the rest of the time, progress has only occurred in fits and starts, and in key areas we have gone backwards.

What are those areas? The big setbacks since 1993 are not hard to recognise – the blow-out in government spending, the growth of costly new regulations, the move to of the Mixed-Member Proportional (MMP) voting system, and the failure to press on with necessary reforms. Cumulatively they have set the country back enormously.

By the end of this financial year, National will have boosted government spending by some \$6 billion. This is a spending programme of Think Big proportions. It has drained resources from the private sector into many low quality and unnecessary public sector activities. According to the OECD, total spending by governments in New Zealand (including local government) is back up to around 41.5 percent of gross domestic product (GDP). By contrast, total spending in Australia, itself a hugely over-governed country, is currently running at 33.6 percent of GDP and the OECD projects that by 2001 this percentage will have come down in seven out of eight successive years. This is a major factor in Australia's strong performance. A country with two fifths of its national income being channelled through the government sector is not going to do well.

On the regulatory front, reregulation rather than deregulation has been the order of the day. We are smothering the productive people of this country with red tape and bureaucracy. In the past decade alone, parliament has passed over 5,200 new laws and regulations – Hong Kong has some 1,000 regulations in total affecting the business sector. Gary Paykel, chief executive of Fisher and Paykel – and hardly a supporter of the earlier deregulatory thrust – recently recited a list of regulations that imposed major costs on his business. They included the Privacy Act, the Commerce Act, the Fair Trading Act, the Hazardous Substances and New Organisms Act, the Human Rights Act, the Resource Management Act, the Employment Contracts Act and the Securities Act. Almost all these regulations have been enacted in the 1990s. All of them add to the costs of small and large businesses alike. The Employers Federation reports that a medium-sized firm can expect to have to complete 168 government forms each year. Like Germany after the war, we need a bonfire of regulations.

MMP has worked out more or less as many of us predicted. It is a less transparent, less accountable and less democratic system, and has brought politics to new lows. The public thought MMP would give it greater control over politicians; in fact it has got less and it is now thoroughly dissatisfied. As expected, MMP has led to paralysis and low quality compromise in decision making. Longer experience with the system will not improve it. The country must be given the opportunity to vote again on it in the next parliamentary term.

And as a result of New Zealand's inertia and paralysis in recent years, it has fallen well behind the rate of progress many other countries are making. When we were doing outstanding things, people overseas noticed, visited and copied New Zealand. No longer do others look to New Zealand as a leader in economic reform. In the latest IMD survey of international competitiveness we have fallen to 20th position. In areas like privatisation, infrastructure provision, education and welfare reform, other countries are showing the way. We have failed to develop the kind of consensus and culture that characterises successful countries – the United States, for example, where there are no great lurches of policy whenever a Republican administration replaces a Democratic one, or vice versa. We have extricated

ourselves from basket case status, but we now look just ordinary compared with more ambitious countries.

The community clearly recognises New Zealand is underperforming. In the first half of the 1990s there was a new sense of optimism and excitement about New Zealand. It was attracting interest around the world, major international companies were investing in the country, scarcely a week went by without reports of Australian firms relocating here, and there was a big inflow of talented people, including New Zealanders returning from abroad. Today those trends have reversed, most worryingly in the form of a big outflow of skilled and enterprising New Zealanders. We have developed a cottage industry of pessimism. There has seldom been a more pervasive negative sentiment in the business community. Most business people I know who have made money have redirected much of their investment offshore, for perfectly understandable reasons. The national hangdog mood is wearing down even the most resilient and patriotic spirits.

Why is all this happening? Clearly the economic mismanagement and stop/go progress of recent years has taken its toll. But we also have to look deeper and ask why governments, which ultimately reflect community attitudes and pressures, have behaved the way they have. Why is there an attachment, for example, to the kind of policies that Labour is promoting today – contrary to their hugely creditable record in the 1980s – when no leading country in the world is looking in the same direction? Why is National offering no vision and agenda as it goes into the election?

One answer is that the habit of seeking favours from governments is far from dead. We see this every day in the form of health, education, pensioner and environmental lobbies, for example, seeking additional spending or regulations whose costs fall on other people. Their arguments resonate widely with many people who still see government as benign and associate it with compassion, despite its repeated failures to deliver. Even some in the business sector as well as some politicians have shown a tendency to revert to old ways and argue for subsidies and tax breaks for things like venture capital, R & D and accelerated depreciation. They tell us, of course, that they are not into 'picking winners' but that is exactly what such policies involve: a

benefit to help one industry grow is inevitably a cost to some other industry which will make it less profitable. In the process, government spending and tax rates rise.

To be sure, some other countries like those which came to grief in Asia engage in such policies, but that is no reason for us to copy their foolishness. If industry interventions were the route to economic salvation, New Zealand would have been a star performer in the past because we applied them in huge doses. Ireland had subsidies for years but its economy stagnated; only when it took to monetary and fiscal discipline and general liberalisation did its economy take off. As part of its business tax reforms, there is a push in Australia to get rid of tax concessions such as accelerated depreciation and to lower company tax rates instead. The business sector in New Zealand would do far better to urge New Zealand governments to do likewise rather than go back down a path of government handouts and favours. The government could do more to push Australia to eliminate CER distortions and barriers to trade – we often seem limp-wristed in our trans-Tasman diplomacy.

In the business sector, I do not believe that proposals to return to failed policies will go very far – most producers in the economy are strongly committed to the new environment. Contrary to their proponents, the success of countries like the United States, Australia and the top performers in Europe and Asia is not built on selective industry interventions – if anything, they have held these countries back. Rather, their success is due to much the same kind of policies New Zealand embarked upon, involving greater economic freedom and government restraint. Does anyone really want to put our current generation of politicians and bureaucrats in charge of commercial decision making in this country?

But outside the business sector, the country is having enormous difficulty shaking off what the *Australian Financial Review* once described as "the clammy grip still reaching out from the socialist grave – pulling New Zealand back into its welfarist, isolationist roots." The urge to focus on redistributing wealth rather than creating it is still strong. It is bedevilling the advancement of the Maori community. New Zealanders still tend to see issues in a vacuum, isolated from national and international realities. We hang on to things that are no longer relevant like car assembly operations and producer boards. We focus on the trivial and on personalities and symbols rather than debate substantive ideas. We lack

international benchmarks for deciding what works. We think that the sharemarket is languishing because of poor regulation when the problem is a poor business and economic environment. We look for desperate solutions like joining Australia and becoming another Tasmania. We blame governments not ourselves for our problems.

There is much that I like about New Zealand's egalitarian culture. We have never been a class-ridden society. But unlike in the United States, this has not translated into an easy openness to new ideas and a strong sense of national confidence and cohesion. And our culture has its toxic sides, such as when children deride their classmates for getting ahead, and in our tendency to be knockers. As John Hewson, the former leader of the Liberal Party in Australia, recently wrote, speaking of tendencies in Australia that are less damaging than ours:

While this has been a strength of the Australian character – we haven't taken ourselves, or each other, too seriously and we have been justifiably sceptical of new guys with new ideas – it disturbingly has also worked to hold people back, to choke originality and entrepreneurship. And to simply fail to give credit where credit is due.

During my time in the United States, by comparison, I was impressed by the American nationalistic spirit, their unequalled capacity to find the good in people or events and to be uplifting rather than downgrading. It didn't matter who you were, or what you had done, but your small successes were made big and your failures were minimised or overlooked.

The United States is the stand-out economy of the 1990s – countries like Canada and the United Kingdom are trying to learn the lessons of its entrepreneurial success.

Another feature of New Zealand's egalitarian culture that I like is our instinctive concern for the underprivileged and people down on their luck. But too much of this culture has been deformed by state welfare which has made many problems worse. To be practical, compassion has to take the form of giving people fair chances, supporting them in need, but not turning them into dependents. By far the best way for governments to help the poor is to maintain order, create the conditions for prosperity and encourage self-reliance – and all these things require a certain hard-headedness. A soft heart is fine, but soft-headed policies are a recipe for

disaster. Again the welfare reforms in the United States in recent years, are showing us the way to go. They have helped shift that economy close to full employment, and slashed welfare rolls dramatically – by 90 percent in Wisconsin in the past decade.

I conclude that New Zealand needs a loud wake-up call. The way we are going the whole country will soon be on Prozac. What is the way ahead?

First, I suggest we should have no lack of confidence in the general path the country has taken. The reforms were delivering major gains in the mid-1990s and we are still doing better than we were. But progress has stalled. The combination of Jim Bolger's teabreak, Winston Peters' economic ineptitude and MMP have been huge setbacks from which we have not recovered. At the beginning of this year the prime minister announced that the government would complete work in this parliamentary term on the Resource Management Act and deal with the rating powers of local government, roading, water and tertiary education. It will deliver on none of these. No business could survive today with such a decision making work rate. We are pointed in the right direction but we need more traction and consistency. Some people dislike this insistence on the necessity of a sound fundamental strategy and they look for novelty and short-cuts. But how can advocacy of a proven recipe for success be boring and irrelevant?

Secondly, the way forward has to involve far less reliance on government. The recent New Zealand Study of Values found that only 16 percent of those surveyed had a great deal of confidence or quite a lot of confidence in government, down from 48 percent in 1985. The same trends are evident worldwide. We have asked governments to get involved in activities far beyond their proper roles and we must rely more on individual choice and initiative, through both the commercial and the voluntary sectors. New Zealand has neither the financial nor the human resources to run big government operations. We have seen the huge benefits of the partial opening up of ACC to competition. Think of the gains we would get from removing the state monopolies in health, education and welfare.

Finally, we must decide how we are going to be motivated to make changes. As I see it, there are only two possibilities: crisis on the one hand or leadership and vision on the other. In 1984 we had both an economic crisis that precipitated change and political leadership that the country supported in the 1987 election. A few more years of large current account deficits, growing external debt and outflows of people and capital could return us to a crisis situation. Investment markets are already notching up the risk premium on New Zealand as the election approaches. Do we always have to learn the hard way?

The alternative is to stop blaming governments and each other and to determine through leadership that we want to do better. Why don't we, for example, decide that within the next few years we want to see:

- full employment levels like those in the United States;
- education standards like those in Asian countries which top international comparisons;
- welfare rolls back to the levels of the early 1970s;
- elderly people and women feeling safe in their homes and on the streets;
- equal levels of productivity and incomes to those in Australia – a perfectly attainable objective within, say, 10 years;
- low tax rates that attract businesses and investment from around the world;
- young New Zealanders eager to return to careers at home after working abroad; and
- people in our media and universities who have been citizens of the world and who can help the community confront the challenges and opportunities of the twenty-first century.

All of these things are possible. There is nothing wrong with New Zealanders' genes. New Zealanders are perfectly competent in doing business, and the economy is wide open to anyone who thinks they can do better. Everything depends on how well we run our national affairs. We simply have to stop shooting ourselves in the foot. As Bob Hawke said about MMP, New Zealanders thought they were punishing politicians but in fact they were punishing themselves. That goes for too many of our national reactions. We have to raise our sights and look at the wider picture.

Going into the next millennium, New Zealand should be an optimistic place. Growth is picking up internationally, most countries are continuing to move towards better economic policies, tensions between nations are easing and the world isn't running out of resources to support higher living standards. It's time we broke out of our insularity, knocked the knockers and got on with the job of creating a first-class country. And 'we' means not just politicians but all of us.