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**AUCKLAND REGIONAL CHAMBER OF COMMERCE AND
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WHO CARES?

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Shortly after the overthrow of the communist regimes in 1989, Rolf Dahrendorf, the former head of the London School of Economics, made a very perceptive remark. He said:

It will take six months to reform the political systems, six years to change the economic systems, and sixty years to effect a revolution in the people's hearts and minds.

Ten years down the track, the truth in this remark is evident in the confused politics of many ex-communist countries. Fifteen years after New Zealand's Berlin Wall began to be dismantled in 1984, the struggles of people coming to terms with change are still evident on talkback radio any night.

In an article in the *Herald* last year, John Roughan summed up the state of mind of a significant part of the electorate. He described it as follows:

It is a world that does not recognise signposts of left and right let alone the inevitable choices confronting those who must make decisions. It does not like what has been done to the country but does not want to go back, wants unlimited public spending and low taxes, likes universal benefits but not dole bludgers, distrusts both public servants and privatisation, detests politicians but talks passionately about little else.

This state of mind is not very helpful in making clear choices if New Zealand wants to go forward. It should worry all of us as the country approaches another general election.

I spoke to this chamber shortly after the last election and before the coalition government was formed. On that occasion I suggested that New Zealand was entering "dangerous waters". I said:

The economic outlook for the next 3 years is already far less exciting than it should be, and the [government's forecasts] may turn out to be optimistic. The economy has lost competitiveness and many export industries are under stress. It would not be surprising if the rate of growth falters and unemployment starts to rise again in the near future. Lower tax receipts and higher welfare payments would quickly turn around the government

account from high and rising surpluses into budget deficits. Our return to 'borrow and hope' territory will be even speedier if politicians indulge in fiscal irresponsibility in their eagerness to be part of a coalition government.

I get no satisfaction from observing that that scenario has, by and large, materialised. National went into the last election with a commitment to achieve annual economic growth of 3.5-5 percent. It was a plausible commitment. The economy had been growing at that rate over the previous four years after a sound and balanced framework had at last been put in place in the early 1990s. Last year the United States and Australia both grew by around 5 percent despite the Asian crisis. By contrast, National will achieve less than half the growth it targeted over this parliamentary term. Today I gather that it's not possible to fail in our education system, but when I went to school less than 50 percent was a failing grade.

The sources of the present predicament go back several years. Jim Bolger called a halt to major policy improvements after 1993: he described our ideas for building on the country's previous achievements as "too ambitious". He was also the midwife to MMP. His government initiated the huge increase in government spending which accelerated under the coalition and is still ongoing. New Zealand has fallen from 8th position in the world competitiveness rankings in 1995 to 20th position this year – below where we were in 1991 and nearly at the bottom of the OECD group of countries.

Local and overseas investors finally blew the whistle on New Zealand and marked down our credit rating and the currency, and the economy now appears to be on a modest recovery path. But the patient is far from healthy. The export outlook remains weak and the current account and external debt positions are at worrying levels. At best they will take another parliamentary term to correct. It will also take that time to get rid of MMP. I believe the electorate will throw it out if it is given the opportunity, and in the interests of better government it should demand the right to have another say.

So at the earliest New Zealand may lay the foundations for sustainable growth again nearly 10 years after it lost its way. We will have suffered a whole decade of drift and lost opportunities.

Some ministers in the National cabinet think that assessment is too harsh. In their view the business community has not given them enough credit. Things could have been worse, they say. They did cut government spending back a bit last year. They have made important decisions on tariffs and ACC. The prime minister stated in February that the government will be "very busy indeed" this year implementing decisions on the Resource Management Act, producer boards, local government, roading and the tertiary education review.

But will these very necessary things happen or will the government still be talking about them when it goes into the election? Will this month's budget see government spending and debt ratios tracking towards the government's objectives or still going in the wrong direction? Will producer board reform still be in the too-hard basket, biasing New Zealand's agricultural production towards low-value commodities? Will the government even start talking about unemployment and the need to repair the damage the Employment Court has done to the Employment Contracts Act, or will it continue to make job creation more difficult with new age discrimination legislation and perhaps paid parental leave?

I am sure we can all sympathise with the problems of ministers trying to make the most of the cards they have been dealt by MMP and minority government. But at the same time we must keep pointing out the widening gap between New Zealand's potential and its performance. We must remind them of Winston Churchill's message: "It is no use saying 'we are doing our best'. You have got to succeed in doing what is necessary." All of us in business have to accept that discipline every day, and we should expect no less of our political leaders. A clear vision and sound policies are the best recipes for both business and political success.

In their more candid moments, members of the present government acknowledge they haven't made a good fist of things but tell the business community that the centre-left parties would be worse. This too may well be true, but it is both a weak excuse and a sad commentary on the Labour Party, which did so much in the 1980s to rescue New Zealand from the prospect of terminal economic decline.

There can be absolutely no doubt that current Labour policies would do further damage to an already battered economy. The list of policies which would be harmful for growth includes a review of the Reserve Bank Act, a review of the tariffs decision, higher levels of government spending, an increase in the top personal tax rate, an end to privatisation, interventionist industry policies, major changes to the Employment Contracts Act, a reversal of the ACC and housing reforms, an increase in pension levels, the abandonment of salary bulk funding of schools, and a return to a more centralised health system with elected area health boards. It's a list of policies that have been tried and failed. Even Savage, Nash and Nordmeyer, who were fiscal conservatives, would be horrified at Labour's 'big government' stance today.

The contrast between 'Old Labour' in New Zealand and 'New Labour' in Britain continues to grow. Our Labour Party wants to put up taxes whereas the Blair government is reducing business and personal tax rates. Labour here is against privatisation while Blair's party is for it. New Zealand Labour has shifted back to universal social benefits whereas the Blair government is pursuing means testing. Tony Blair has embraced the Thatcher legacy whereas Labour seems to want to forget the 1980s reforms ever happened. Steve Maharey has stated categorically that Labour would end 'more market' policies – it still hankers after regulation and controls. Labour offers no vision for the future. It all reminds me of the fate of one of Robert Frost's characters, "the fate of having nothing to look backward to with pride and nothing to look forward to with hope."

It's not as though the Labour Party has not been looking for ideas, but it has been looking in the wrong directions. Last year it brought to New Zealand Robert Reich, a former secretary of labor in the Clinton administration. Reich is a 'yesterday's man' in American policy debates. Nevertheless, even he accepts the reality and desirability of globalisation; he rejects state ownership of the economy; he says that wages should be flexible and employers should have wide latitude in hiring and firing employees; he believes that social safety nets should be trimmed and able-bodied people put to work; he advocates education vouchers (effectively an extension of bulk funding); and he points out that high subsidies to tertiary education are a transfer from poor to rich. Why isn't Labour listening to these

messages instead of pandering to public sector unions and other special interests? Instead it seems to prefer all the outdated features of Reich's thinking, especially his residual attachment to big government. As David Boaz of the Cato Institute has put it:

Social democrats like Reich concerned about community values ought to reflect on what their policies have done to divide Americans. They've given government so many tasks, and so undermined the old notions of personal responsibility and morality, that government can no longer perform its basic function of protecting us from physical harm. They have centralised and bureaucratised the schools so that little learning goes on there. They have nationalised and bureaucratised charity. Is it any wonder that people flee the institutions thus created?

The Labor Party in Australia went into the election in October last year on a backward-looking platform and lost. It is now having to fundamentally review its stance. The Howard government campaigned on a pro-reform platform and won. It is now pressing on with renewed confidence, as Australia enjoys the benefits of 15 years of sustained reform. One would like to think the lessons will not be lost on New Zealand political parties.

Some might find it hard to understand why political parties in New Zealand favour backward-looking policies given the evident trends around the world towards policies of economic liberalisation, privatisation, lower taxes and generally smaller government. But we should realise that political parties adopt policies which they believe a significant share of the voters will support. Ultimately it is community understanding of what makes for national success that matters, and we should not direct all the blame to politicians. New Zealand is a more economically literate country today, but still not literate enough. People in politics, business, academia and the media have still not done enough to get across to the community how its aspirations can best be met.

People are quite rightly concerned about living standards, jobs, security in old age, and the fortunes of those less well off than themselves. In the past they have associated big government with compassion and economic security. Those of us who do not believe big government is the answer must work harder to show them

we have better answers. We must remind them that protectionist policies aimed at insulating New Zealand from the rest of the world sapped both our prosperity and our security. We must stress David Boaz's point that welfarist policies ultimately destroy social cohesion, and recall that when the Bible talks about being our brother's keeper it is not talking about giving the job to Big Brother. Politicians must find new ways to connect with the average voter. They must explain that better policies are not about following some ideology but about making people better off. They must give the community the confidence to vote for changes that are necessary for progress rather than opt for the timid politics of muddle-through.

Prior to the last election, the Business Roundtable and the Auckland Regional Chamber of Commerce and Industry set out their answers for taking New Zealand forward in the report *Moving Into the Fast Lane*. The answers are as valid today as they were then. The essence of them is the need for smaller government – we suggested as a medium-term goal that government spending and tax burdens should be no more than 20 percent of the economy, mainly by keeping the rate of growth of spending below the rate of economic growth. In making our case we have the great advantage of being able to demonstrate that when such policies were heading us in that direction a few years ago, New Zealand was making outstanding progress. For example, the Maori unemployment rate which stood at 25 percent in 1992 was down to 15 percent by 1996. It should have been below 10 percent by now but instead is back up to 20 percent because the government dropped the ball. As Treasurer, Winston Peters didn't set out to achieve this result – indeed he had ambitious ideas about growth which I was one of the few to publicly support – but he simply didn't understand how the economy works. Far from moving into the fast lane, the economy ground to a halt last year.

We don't need to look beyond New Zealand for the lessons of both success and failure, but if we do we find exactly the same lessons. For example, it has become fashionable to look to Ireland as another economic success story. The *Business Herald* somehow contrives to represent Ireland as a story of active government intervention. It has failed to cite any authority to support this bizarre interpretation. Yes, Ireland still subsidises some of its industries, particularly agriculture, but where is the evidence that this has helped rather than harmed its economy? Leaving aside

the generous help from Brussels, the reality is that Ireland's success has been built on essentially the same foundations as New Zealand's earlier success. Ireland has opened up its economy and pursued less interventionist policies to the point where it now ranks seventh equal in the world in the latest Heritage Foundation/*Wall Street Journal* Index of Economic Freedom. Its ratio of general government spending to GDP, perhaps the best indicator of the level of government intervention in an economy, has fallen from over 50 percent in the 1980s to a projected 32 percent next year (well below New Zealand's 40 percent ratio). Tax rates are correspondingly low – just 10 percent on some forms of investment. Let's by all means follow the Irish model, including by making further efforts to get tax rates on investment down, but remember we discovered it first.

Both New Zealand and Ireland have shown that small economies starting with an agricultural base can modernise and prosper, given a determined commitment to the right policies. As someone once said, what matters is not the size of the dog in the fight but the size of the fight in the dog. But small economies have to stand out by the excellence of their policies in today's world, or their attractiveness quickly fades. That has been New Zealand's recent fate: we have disappeared again from the investment world's radar screens. Even more disturbingly, the inflow of people in the early 1990s has turned into an outflow of many young, skilled and entrepreneurial people. According to a recent report, almost 33,000 New Zealanders will move to Australia this year. An increase in the top personal tax rate would only exacerbate this exodus, and force New Zealand firms to increase salaries at the higher levels to try to combat it. How this helps anyone, and those on low incomes in particular, defies comprehension.

New Zealand can recover from its recent setbacks. There is no reason why we cannot achieve the vision set out in *Moving Into the Fast Lane* of becoming a high growth, high employment country, doubling average incomes in 10 or 15 years. We were doing better than Australia in the early 1990s and could do so again. I for one won't be happy until I see a Maori unemployment rate well below 5 percent, elderly people feeling safe in their homes, welfare rolls back to where they were in the early 1970s, and young New Zealanders eager to return to careers at home after having a taste of the big wide world abroad.

However, a serious doubt that I have about New Zealand at present is whether enough people understand the realities of modern economic success. Rolf Dahrendorf's warning about people's propensity to cling to failed ideas is a sobering warning. The electorate still has an appetite for snakeoil. The *Business Herald's* push for subsidies and takeover regulation is misguided, yet it resonates in some quarters. The media have given enormous coverage to Dick Hubbard who promotes Levi Strauss as a model of a socially responsible and profitable business – a company whose share price has fallen 40 percent in the past three years and which has had to lay off 16,000 workers. Its policies were socially irresponsible and it has now abandoned them. MMP was another delusion, as proportional representation has proved elsewhere. The vast majority of Italians who were concerned enough about Italy's future voted against proportional representation in the recent referendum, although the turnout was just below the 50 percent threshold needed to effect change. If the public and the media keep falling for such delusions, the chances of putting in place sound policies and sticking with them are not bright.

Equally, I wonder who really cares about our present state of drift and wants the country to do better. It seems to me that there has been a serious loss of national ambition, and even a lack of apparent public concern about New Zealand's underperformance. I am reminded of the Muldoon era when national decline was almost taken for granted. Where is the leadership and the passion? When did you last hear the treasurer reaffirming National's commitment to a 3.5-5 percent growth rate? When did you hear the minister of labour giving a serious address about our totally unnecessary rate of unemployment? Mobilising support for doing better is hard work, but acceptance of stalemate and mediocrity will only make things worse.

Within the business sector, the ranks of business leaders who have made major contributions to public affairs over the past 15 years are thinning out. The vacuum has been filled by people like Dick Hubbard whose mission is not to promote the interests of business – he doesn't even belong to this chamber – but to promote muesli. Nothing wrong with that, but no one should confuse the two missions. Those who understand how business and the economy work within society as a whole must re-engage in the debate, must support your business organisations, and

must back sound policies proposed by any political parties. If, for example, the National Party commits itself to achieving an income tax structure with rates of 15 and 25 percent, as has been mooted, it deserves the whole-hearted backing of business.

There can now be no excuse for mistaking what constitutes a sound and successful strategy for a country. The directions in which New Zealand has moved over the past 15 years have been followed by every single OECD country, and many others as well. Politicians like Mitterand in France and Lafontaine in Germany who tried to swim against the tide found political support for their policies disappeared. But no strategy will succeed if it proceeds only in fits and starts. As the Australian prime minister, John Howard, put it recently:

There is no alternative in the modern, globalised economy in which we all live than to go on indefinitely with the process of economic reform.

We all know our businesses need to be re-invented constantly, and so do many of a nation's policies and institutions. Yes, it is hard for a country to escape its history, but it is not impossible. Within the past generation, countries such as Britain, Ireland, Australia, Chile, Argentina and many in Asia have been genuinely transformed for the better. There is absolutely no reason why New Zealand cannot continue its progress and catch up with the leaders. Economic progress requires sustained effort, year in and year out. A renewed commitment to reform would not only restore our confidence but could equally, as in Britain, eventually secure the acquiescence of the centre-left parties in the new policy regime.

John Howard made one more point. He said that with the Australian economy doing so well, it was precisely the time to press ahead with changes that would increase the prosperity and security of Australians. This was the message Jim Bolger chose to ignore in 1993, and we have paid a heavy price for his extended teabreak. With the economy gathering at least some momentum again, the next government must not let the opportunity pass. Those who care about the country's future must insist that the government gets the economy back on track. They must insist that parliament gives the country the opportunity to throw out MMP to

overcome the present paralysis. All of us know we can't be second rate in business today, and there's no reason why New Zealand should be second rate as a country. Being first rate is the only standard we should be willing to accept.