EMBARGOED UNTIL 2.00 P.M. THURSDAY 2 MARCH 1995

AUCKLAND CHAMBER OF COMMERCE

MOVING INTO THE FAST LANE

DOUGLAS MYERS
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

AUCKLAND
2 MARCH 1995

MOVING INTO THE FAST LANE

It's a pleasure to speak to an audience which reflects such a wide cross-section of the business community. In fact one of the most pleasing developments of recent years that has accompanied the resurgence of business in this country has been the resurgence of business organisations. Almost all of them have gone through a process of upgrading and modernisation. Today they are in basic accord on the economic fundamentals that New Zealand needs for business success and growth.

I want to pay tribute to the Auckland Chamber of Commerce which, under Michael Barnett's leadership, has been part of this process. It represents businesses large and small. Contrary to the beliefs of those who would play one group off against another, large and small businesses have the same aspirations. The Business Roundtable is working with the Auckland and Wellington Chambers on a study which reviews New Zealand's recent achievements and looks at how we can build on them. We share the same goal of seeing the country really move into the fast lane.

It has to be said that those achievements are phenomenal. The big story in New Zealand today is that the benefits of economic restructuring are now undeniable. In calendar 1993 the economy grew by about 5 percent; growth last year seems likely to come in at just below 7 percent; and this year looks like being another 5 percent year. The appreciation of the exchange rate means our effective income has risen faster still. In just three years the economy will have grown by more than it did in the ten years to 1984 - the so-called 'good old days', when even this miserable growth was fuelled by rising debt.

Even more important, present growth is being sustained. The government's current forecasts imply an expansionary phase of 7 years since the economy stopped contracting in 1991. Previous expansions since 1965 lasted an average of about 18 months. We have broken the stop/go cycle.

The quality of the present growth phase is exceptionally high. There are no evident inflation or balance of payments pressures that put it at risk. Business investment has been growing at around 15 percent a year; export growth is matching the growth of imports; New Zealand's credit rating has been upgraded; the budget is in surplus; national savings are rising; company profitability is high and company balance sheets and cash flows are strong. The migration outflow has turned around and there is strong interest in immigrating to New Zealand. Prices are no longer sending wildly distorting signals, firms can react quickly to changing market demands, and competition is forcing continuous innovation. None of us in business today has ever seen New Zealand in such great shape.

The best news of all has been in the labour market. Contrary to those who talked about a jobless recovery, job creation has been nothing short of spectacular. Since the Employment Contracts Act was passed, some 140,000 new jobs have been created, the equivalent of the entire work force of Wellington or Christchurch. The government's December economic update predicts a further 135,000 jobs will be created by 1998. The unemployment rate in 1991 was nearly 50 percent higher than it is today. New Zealand is working again.

I will come later to the challenges we still face, and there are plenty of them. But the point to be made at this stage is that New Zealand has come through a remarkable transformation. We are finally out of the tunnel and into the light. Polls show that New Zealanders are happier with their lives than they were ten years ago, they think their country is going in the right direction, and they have more pride in it. These are the results that some of us have worked for over many years. This is New Zealand on the change.

It has still not dawned on some that the achievements in New Zealand are of international significance. Provided we can keep the momentum going, they stand to rank with the economic successes of Germany and Japan after the war, Chile and the tiger economies in the 1970s and '80s and the Czech Republic today. As the *Asian Wall Street Journal* said recently, it's only a decade since New Zealand was the sloppiest, most terminal welfare state in Christendom. We are now rising fast in the world competitiveness rankings, and are at the top of the OECD countries for the quality of government policies.

New Zealanders in all walks of life have come to accept there was a need for change and have shown that kiwis can fly. Our farmers, manufacturers, state-owned enterprises, local governments, polytechnics and media organisations, to give but a few examples, are all doing a far better job than they were ten years ago. Ordinary New Zealanders are the unsung heroes of the turnaround.

Many of our politicians also deserve a special tribute. It's time to hit back at those with other agendas who have sought to bring politics in this country into disrepute. We have had some exceptionally courageous and far-sighted politicians in the last ten years. The average quality of those who have served in parliament in that time is far higher than it was in the 1970s and early '80s. Visitors to the country who meet with our politicians routinely comment on the intelligent grasp of economic realities that many of them display. Naturally we are all keen to see them do better yet; we are always wanting to lift the bar. But we should give recognition for what has been done, and say 'thank you' for their achievements.

As people in business, however, all of you in this room are only too aware that what counts for the future is not your past achievements but your firm's potential for improvement relative to its competitors. Exactly the same is true of countries. As one fund manager said after a recent New Zealand investment conference in Australia:

> All I've heard is what your country has done over the past ten years. What I really want to know is what happens now.

The unforgiving answer, if we want to extend the gains and reduce the risks to which New Zealand is still exposed, is that we have to keep on raising our sights. In business today, the only relevant benchmarks are the world's best. If you don't meet them, you pay a price. Countries that settle for less face the same penalties. From being richer than Australians, our per capita incomes are now around three quarters of theirs. The New Zealand dollar, which was worth A$1.24 in 1967, was worth less than 60 cents by 1984 and has regained only part of the lost ground. Do we always want to be poorer than Australians?

When he spoke to this audience last month, the prime minister said that it would be necessary to ease back on the present rate of growth. Surely this cannot be the logical stance. If I were to tell my board or shareholders that I wanted to see the company's performance ease back, I suspect they would start looking for a new chief executive. Why then should we accept the prospect of drifting back into the cruising lane? Why don't we really put our minds to moving into an Asian-style fast lane?

There is no doubt that we can improve our performance a great deal yet - probably by as much in the next ten years as we have since 1984. Our average levels of productivity, and hence our income levels, are still far below the world's top performers. We will certainly not be doing all we can for those who are still unemployed or struggling to make ends meet if we just switch into cruising mode.

The government has set an annual growth target of 3.5 to 5 percent for the period to the year 2010. Even if we were to accept that target, it means that we will need years of growth of above 5 percent to offset years when growth falls below the bottom of that range. If we moved above the top end of the range we could overtake Australia by 2010. As Roger Douglas is saying, we could scrap our personal and company income taxes in that time. People would have more to spend on health, housing, the environment or anything else they valued. With a highly productive economy, you still can't have it all, but you can have a lot more.

What would we need to do to move New Zealand up to world class standards of performance? The answer is now very clear: we must keep concentrating on the economic fundamentals, just as the best performers in Asia and elsewhere do.

There are four key pillars to the current economic framework, all of which can be strengthened.

The first is to create a fully open economy. We have made much progress in this direction, and Philip Burdon deserves credit for the tariff decisions at the end of last year which signalled a move to full free trade soon after the turn of the century. Our international tax regime, which in effect applies a tariff to imported capital, now needs to be brought into line with the needs of an open, competitive economy. The moves on tariffs must be matched by moves to dismantle controls over primary exports. The primary sector's performance is now lagging well behind the rest of the economy; in the last twelve months it actually lost jobs. The government's December update noted that the value of non-commodity manufactured exports in 1997/98 is forecast to be larger than meat, wool and dairy exports combined - an astonishing projection which has gone almost unnoticed. In the single-desk industries the problem is that farmers are confronted by trading monopolies; they don't have competitors bidding for their products. Like the Loch Ness monster, an efficient, dynamic monopoly has not yet been sighted, though many farmers still seem to believe in its existence.

The second pillar is the Reserve Bank Act and its goal of price stability. The benefits of the low inflation environment have been immense. Some of our more flighty economic commentators have been fretting that the rise in interest rates may choke off growth. Memories in this country are very short. Nothing did more to choke off growth than the inflation of the 1970s and '80s. The reactions of the market and the Bank to keep the economy on a non-inflationary path provide the best guarantee of growth being sustained. The Bank can do without fairweather friends. We will know it has over-reacted if underlying inflation moves below the 0-2 percent range. Unless and until that seems likely to occur, the business sector should be giving the Bank its full support. It should also work to persuade Labour and the Alliance to drop their plans to tinker with the Act.

The third pillar is fiscal discipline. This was lacking up to 1991, and has been absolutely fundamental to the subsequent progress.

Contrary to some views, fiscal discipline is not the enemy of good social policy; it's an absolute precondition to the delivery of good social outcomes. It cannot be emphasised too strongly that the key issue in fiscal policy is what the government spends rather than how much it receives in taxation. Unjustified government spending is the real burden on the economy, whether it is financed from taxes or borrowing. Borrowing just defers the tax which has to be raised to repay the loans.

The growth in government spending in New Zealand and many OECD countries has severely impaired their economic performance. The former deputy-editor of *The Economist*, Norman Macrae, has pointed out that in the 1870s Gladstone's supposedly left-wing Liberal government absorbed 6 percent of Britain's national income in government expenditure. In Britain and New Zealand, spending by governments at all levels reached well over 40 percent of national income in the 1980s, and regulatory burdens have also grown enormously. The lower government spending and regulatory burdens of the Asian countries have been important factors in their growth performance and in their attractiveness as locations for business and investment. New Zealand now faces this new form of international competition. As Macrae put it:

> Countries that choose to have too high taxes or too fussy regulations will be residually inhabited mainly by dummies.

(He was not referring to those objects seen in shop windows with clothes on them.)

When the Business Roundtable argued in 1992 that New Zealand should aim to get its levels of government spending and debt down to below 30 percent of GDP by the year 2000, Helen Clark expressed shock and horror and the prime minister felt obliged to castigate us for being "too ambitious". Today the government is on track to reaching these targets within the next couple of years. New Zealand now has a real opportunity to reduce both debt and taxes. The crucial requirement will be to maintain tight control of government spending - tighter than last week's budget policy statement indicates the government is achieving. More than anything else, a lower expenditure and tax burden would take New Zealand closer to the Asian fast lane.

The final pillar of the economic framework has been the labour market reforms introduced under the Employment Contracts Act. Their contribution to enterprise trust, cooperation and productivity has been huge. They have been far more significant for job creation than anything coming out of the Employment Task Force. All of the dire consequences predicted by their opponents have failed to materialise. Business organisations such as the Manufacturers Federation which were largely uninterested at the time are now among the strongest supporters of the ECA.

All business organisations must redouble their efforts to expose the fact that proposals to amend the ECA reflect narrow vested interests, not the interests of workers, the unemployed and the community at large. They must also expose the fact that the courts are neglecting the same interests, thwarting the government's aim of creating an efficient labour market and causing the loss of thousands of potential jobs. With the Court of Appeal decision on redundancy compensation last year, there is now no doubt that the courts are at odds with the government's explicit policy intentions. This should be regarded as an undemocratic and intolerable state of affairs. One option open to the government, if it is determined to put the jobs of the Employment Court judges ahead of those of the workforce at large, is to allow appeals to the Privy Council, which would be more likely to uphold the word 'contract' in the Employment Contracts Act.

Beyond these four core areas, there is still much that can be done to keep New Zealand moving ahead. Other things being equal, the higher interest rates needed to contain inflation will dampen down activity somewhat. But other things need not be equal. The economy is now much more flexible and less prone to bottlenecks. Further steps could be taken to free up resources, upgrade skills, encourage higher investment and maintain the growth momentum.

The problem now is not that we do not know what to do; it is summoning the will to do it. Ministers state openly, for example, that they know electricity privatisation, which is being implemented in Victoria this year, would yield large benefits, but they are not prepared to explain and advocate it to the public. The advent of MMP could add to such paralysis. In a speech this time last year I said the political situation following the election seemed to leave the government in a predicament a bit like that of Pooh Bear, stuck in a rabbit hole after a meal of honey, unable to go forwards and unable to go back. Well, we haven't gone backwards, and the government even made some useful progress last year, but, with only a few obvious exceptions, we seem to be lacking politicians with a dynamic vision of what New Zealand could become. Today's political climate reminds me of a passage from *The Wind in the Willows:*

> "Beyond the Wild Wood comes the Wide World," said the Rat. "And that's something that doesn't matter, either to you or me. I've never been there, and I'm never going, nor you either, if you've got any sense at all. Don't ever refer to it again, please, Now then! Here's our backwater at last, where we're going to lunch."

The challenge for those who want to see New Zealand move into the fast lane to the Wide World, and not slip back again in the economic traffic flow, is to change this defeatist political climate. The onset of MMP is no excuse for inaction. If Sweden, a country with proportional representation and a long socialistic tradition, can introduce broadly equal funding and open competition between public and private schools, why can't we?

If we are to move forward, particularly in the MMP era, there will need to be more community understanding and debate about the opportunities that could be grasped. As the *Herald* pointed out in a recent editorial, despite the evidence of economic success all round them, New Zealanders were still half-listening last year to the academics, counsellors and clerics who had spent the previous nine years deploring the reforms. You will recall that the Catholic Church refused to recognise that the earth went around the sun for 200 years after Copernicus proved it. There is now no excuse for ignoring evidence. We can do without the sermonising that poverty still exists - most of us in the business world are well aware of that, and have been putting our minds to solving the problem. It's not enough to be well-meaning if you haven't taken the trouble to understand the issues and keep coming up with herbal remedies which would only make the underlying problems worse.

People are steadily losing interest in those who have nothing to contribute. As someone said to me the other day, "I used to read an article by Chris Trotter and get angry. Now I just regard what he writes as irrelevant." But while we should ignore the ideologues, we should continue to address the concerns of open-minded New Zealanders who have not yet signed up to the reforms. In part, this involves explaining that some of the concerns are misplaced. For example, it is still frequently claimed that the benefits of the reforms have gone to a privileged few and are not being widely spread. Where this is not just Marxist dogma, it has no basis in reality. With the extraordinary rate of job creation, and the government's forecast in its December update that compensation of employees is expected to be $8.5 billion higher in 1997/98 than it was in 1993/94, huge numbers of New Zealanders are becoming better off. Similarly, complaints about a loss of national sovereignty overlook the fact that all of New Zealand's debt ratios are now falling, that we are less, rather than more, in hock to the rest of the world, and that our more robust economic position generally is restoring our control over our own destiny.

On the other hand, there are still genuine reasons for concern over poverty and inequality, but the task remains one of implementing effective remedies. There is general agreement, for example, that a prime cause of the increase in income disparities in the 1980s was the increase in unemployment due to the rigid labour market. The question to be asked of those concerned about that development is: "Where were you in the debate about the removal of those rigidities?" Today people speaking out on the subject should be supporting those who are pointing to the damaging consequences of the Employment Court's behaviour, minimum wage laws, restrictions on educational choice, open-ended welfare benefits and the like. The 'remedies' still being proposed by some - such as higher government spending and taxation - are the ones that got us into trouble in the first place.

There are other reasons why a broad approach is required. In many ways the economic debate is over, not just in New Zealand but around the world. Most countries are following broadly similar, market-oriented policies. Instead the focus has moved to a new set of social, cultural and moral issues. These have to do with the proper spheres of government, community, individual and family responsibility. Too often in the past we have confused these boundaries and forgotten that the fundamental basis of a free society and a healthy economy is the idea that most people, most of the time, are more than capable of knowing their own interests, and of working to satisfy their ambitions and bring up their families. To help with our understanding of these issues, the Business Roundtable is co-hosting a visit by the distinguished theologian and writer Michael Novak later this month. I urge you to listen to what he has to say. Much more effort must go into researching and debating these issues in the period ahead.

In all of this, I believe a new responsibility is falling on the private sector. For sound economic and moral reasons the business community has been arguing in recent years for less government. The corollary is that businesses and other private organisations must take up the slack. This is already happening. This Chamber, for example, has established a business mentor programme; Fletcher Challenge has introduced an excellent scheme to provide superannuation and health and disability cover to its employees; and firms are investing much more in training - $10 million a year in my own company's case. Many firms are involved in school-business partnerships. Stephen Tindall of The Warehouse is setting up a private welfare scheme. We can expect to see many more initiatives of this type as tax rates fall and more resources are left in private sector hands.

I believe businesses are also going to have to devote more resources to the public policy debate, particularly in the MMP era. We have seen in the last ten years that the efforts to promote better policies have yielded high returns to their stakeholders and the community at large. There will always be some businesses who do not pull their weight and free ride on the efforts of others. That's life. But in areas where more progress needs to be made, such as health and education, there are well-resourced groups promoting their own interests rather than those of the community at large. The secondary teachers' organisation, the PPTA, which is an active participant in the education debate, has a budget of $4.5 million which is well over twice the budget of the Business Roundtable or the Auckland Chamber of Commerce. If business wants to engage effectively in these debates, we will have to ensure that the Chambers of Commerce and other business organisations are equipped to do the job.

There are no grounds to be complacent about the position New Zealand has reached. We could easily get lost in the Wild Woods again. We could persuade ourselves that we have had enough change, forgetting that constant adaptation to a changing world is the only guarantee of security.

On the other hand, we could as a community sign up to a much more ambitious vision for New Zealand, and make further reforms politically possible. Vaclav Klaus, the prime minister of the Czech Republic and the leading reformer in Eastern Europe, has spelt out the political task as he sees it:

> For the countries of Central and Eastern Europe, the important thing now is to push ahead with the process of self-transformation, and to resist any temptation to settle for half-measures or to make useless political and social concessions. The reforming politician must guard against "reform fatigue". He must be able to formulate a clear and lucid vision of a future which is both attractive and achievable; he must explain this vision to his citizens and

> defend it against populists of all shades; he must implement a consistent reform strategy and introduce unpopular and painful measures as and when they are needed; and he must not defer to rent-seekers and lobbyists who pursue their own short-term advantage to the detriment of society as a whole.

We have applied many of these lessons in the last ten years. In New Zealand's case, the ratio of gain to pain from here on should be much more favourable. Given vision and effort, there is no reason why good ideas and policy arguments should not continue to carry the day. Indeed there is every reason to believe that the economy could accelerate into the international fast lane. Why should we be willing to settle for anything less?