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ACT ENTERPRISE NETWORK BREAKFAST

THE TROUBLE WITH TEABREAKS

ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE

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When David Lange made his famous remark in 1988 about the country needing to stop for a cup of tea and take a break from the task of economic reform, he probably had no idea that his metaphor would enter the national vocabulary in the way it has. The call for a teabreak symbolised the loss of momentum and direction of the latter years of that Labour administration. In fact the teabreak turned into a long lunch. Only the intervention of the 1990 election averted the risk of it becoming an all-night drinking session.

Putting it in those terms may seem unfair to the government of that time. After all, judged by almost all previous standards it was still a period in which important reform took place. But business could see that everything was beginning to look phoney. There was no longer a sense of purpose in government, or a coherent strategy. Advances like the Reserve Bank Act and the sale of Telecom were interspersed with backward collectivist moves such as the government-union 'compact' and the so-called 'pay equity' legislation. The fiscal position was deteriorating. Monetary policy was being made to do too much, with the result that interest rates and the exchange rate were under great pressure. Labour market policy was at blatant odds with policies elsewhere.

And while business and commentators were looking with an increasingly jaundiced eye at this policy menu, the government was busy assuring business that everything was all right. "Don't worry, be happy," was the line. All the necessary policy reforms were in place, we were told. The minister of finance of the time became a one-man cheerleader for the economy.

But to what effect? No amount of camouflage could disguise the fact that the community was hurting. We were in the longest and deepest recession since the Great Depression, and the government's policy paralysis was only lengthening and deepening it. Businesses were under pressure, as were the thousands of New Zealanders who were losing their jobs and unable to find re-employment. As always, the teabreak-cum-long-lunch was most damaging to the poor. Only when our politicians came back from lunch, trimmed government spending and liberalised the labour market did the economy commence a strong recovery.

There are obvious parallels between the Labour government's 'teabreak' and the state of the nation today. Of course the parallels are not exact. Our economic framework is now much more consistent and robust. We are not back in recession - yet - and it would be alarmist to suggest otherwise. But there are similar tendencies towards policy slippage. Fiscal policy is growing looser, and badly-directed new government spending is rising. Pressures for new regulations like compulsory savings and new taxes like carbon charges are rising. Further economic liberalisation such as the deregulation of postal services is accompanied by regression in some areas, paralysis elsewhere. There is no sense of strategy or momentum.

Just as in the late days of Labour, government ministers now take time out over post-budget breakfasts and lunches to berate business for not being happier. "You've got the policy framework you asked for", they effectively declare. "We can't understand why business is gloomy." It is as if business people and business organisations are somehow stupid. But if the Manufacturers Federation thinks the last budget lacked ambition and headlined its press release "There Has to be More"; if the Employers Federation thought the budget lacked a cohesive, forward-looking strategy; if the Chambers of Commerce said it provided no inspiration; if retailers said it did little for confidence; if Federated Farmers were unimpressed by it; and if the Business Roundtable said the blow-out in spending is killing the goose that laid the golden egg - perhaps the business community is actually trying to tell the government something.

Much of what business predicted has come to pass under MMP. It would wrong to over-dramatise this point. The Business Roundtable never believed that MMP would lead to a major change in economic policy, or claim that plague, famine and war would descend on the nation. But we did maintain three things. First, we believed MMP to be a less democratic system than first-past-the-post. We saw it as less accountable and less transparent than FPP, because it involved deal-making behind closed doors, gave disproportionate power to small parties, and institutionalised the breaking of manifesto commitments. Secondly, we thought that the main risk under MMP was of policy paralysis rather than wholesale reversal of reform. And thirdly, on the basis of overseas experience, we saw a risk of fiscal slippage, as deals were made between parties at the taxpayer's expense.

All this has largely happened: there has not been major policy reversal, but we have seen a directionless government and a loss of fiscal discipline. Not surprisingly, it is hard to find people who now admit to voting for MMP. In due course we will need to address the issue of whether it should be changed.

A positive feature of the last few months has been the way in which most business groups have reacted to these developments. There is absolutely no call for a return to the days of protection, subsidy and regulation. On the contrary, the main business groups told the government that they did not want the $100 million allocated in the coalition agreement for business. Judging by the absence of these measures in the budget, the government may well have got this particular message.

If so, it will be a rare instance of the coalition government listening to business. To little avail we have been warning - for over two years now - that big increases in government spending are harming the economy. Last year the minister of finance appeared to acknowledge the point. After the 1996 budget Mr Birch said:

> We have gone as far as we believe prudent with government spending. Further than this and, in my view, we risk damaging the future of all New Zealanders.

Since then the coalition has gone a massive $5 billion further, and Mr Birch should be the first to admit that the blow-out is damaging our future.

Business has been pointing out for several years that, after the major advance of the Employment Contracts Act, government policy on the labour market has become *ad hoc* and job-destroying. The Employment Court - and even the Court of Appeal - have brought down rulings that compromise the Act's basic principle of freedom to contract. The government has done nothing to arrest this trend, and since 1994 has added to unemployment by extending and raising the minimum wage. It has recently fallen prey again to the old delusion that government make-work schemes can somehow create jobs. No wonder the Treasury is predicting unemployment of nearly 7 percent next year - a rate that should be regarded as a disgrace after the rapid inroads into joblessness made under the Employment Contracts Act.

The warnings of business have come to pass in the form of a protracted slowdown in growth, reduced budget surpluses, higher unemployment and a current account deficit that is now turning ugly. We hope the forecasters who think the economy is at the bottom of an economic cycle are right, but a government in hibernation could be a signal of a long winter. The government seems to be pinning its hopes for a recovery in the next year on easier monetary conditions and higher government spending. Are we all Keynesians again?

What can be said with confidence is that the government is not within cooee - to use the Reserve Bank's new economic jargon - of reaching the growth targets it has set for itself. National's goal is a growth rate of 3.5 - 5 percent a year between now and the year 2010. New Zealand First's growth target is 6 percent by the end of its first term in office. The coalition's economic strategy makes nonsense of those targets, and most ministers know it. They have simply stopped talking about them and, curiously, no one in the media bothers to ask them why.

Much the same kind of policy paralysis seems to have set in on the other side of the Tasman. The respected Australian academic Ross Garnaut has spoken scathingly of the slowdown in economic reforms in that country, and of the "huge risks to living standards and ultimately the security of Australians of alighting before we had moved beyond the swamps of mediocre performance." A teabreak in a swamp is not an attractive proposition. In Australia, the decision to stall progress on reducing levels of protection on motor vehicles triggered alarm bells for many thinking people. Garnaut diagnoses a paralysis of will:

> How do we go forward? The political problems are now truly formidable. The anxieties that were massaged in the motor vehicle debate will be touched as readily on other protection decisions, taxation reform, labour market flexibility, and institutional change in public utilities and transport. The same political arguments for stopping the clock will have mounting appeal in all these areas.

One difference between Australia and New Zealand is that business here speaks largely with one voice in urging further reform, and this is unlikely to change. Consequently, our government has even less excuse to take a teabreak.

Most people in business know that both countries can do a great deal better. The Muldoon and Fraser governments made many of the right noises about controlling expenditure and promoting international competitiveness, yet they did conspicuously little to advance those aims. The same thing is happening today. The projected operating surpluses have already been scaled down several times as a result of slower growth and increased government spending. Only last March the Treasurer was adamantly rejecting business criticisms of government spending and asserting:

> This coalition government will have a surplus to repay debt in excess of $3 billion this budget year commencing July 1.

Well, it hasn't; the projected surplus is only half that amount. Now it would take only a comparatively minor shock to see the surplus evaporate altogether. The government would then be left wondering how it managed to blow such an impregnable-looking fiscal position.

If the government was seriously interested in international competitiveness, it would not just scrap tariffs as planned but would immediately remove the monopoly powers of the producer boards as well. The constituency for retaining them gets weaker every year, and many government ministers will admit in private that the regulatory powers lack all rationale. Reform in this area would be straightforward, quick, and soon accepted by large elements in most of the industries. Right now there is a bill in the House which could be amended to wind up the meat and wool boards. As a microeconomic reform issue, they don't come any easier. Yet the government is still out to lunch on the subject, and looks like being so for some time.

Again, if the government really wanted to reduce unemployment, it would not be wasting a whole year studying the problems of the Employment Court. What is needed is action - to scrap the Court, abolish the minimum wage, and amend sections of the Employment Contracts Act. A bill to this effect, bringing employment law completely within the ambit of general contract law, could comprise a few pages and be drafted in a day. The ECA itself took only weeks to prepare.

Business has repeatedly argued that the government is not doing nearly enough to pursue its wider programme of economic liberalisation. Governments across the globe from Beijing to Havana, with the OECD countries in between, are privatising businesses to make their economies more competitive. If businesses were as slow to divest unneeded assets as the government, New Zealand would be in dire straits.

Indeed, the government in general seems to be leaning on its shovel like the former Ministry of Works' road construction gangs. It looks like taking the better part of a year to sell Government Property Services. In the private sector an asset like GPS would be sold in 3-4 months. Arrangements to sell vehicle testing stations would be sorted out over breakfast. Is this the level of performance taxpayers should expect for their dollars?

In their own defence, coalition ministers sometimes admit that they are just muddling through, but go on to claim that the opposition parties would be worse. There is probably some truth in that argument: Labour seems to have been in semi-hibernation for two full parliamentary terms as far as developing new and forward-looking ideas is concerned. By contrast, Tony Blair's Labour party in Britain totally transformed itself in half that time. But that is hardly an inspiring or edifying argument for the coalition to mount. Are we really engaged in a contest for mediocrity?

Many of ACT's policies appear to be more in line with what business is calling for: an open economy, lower taxes, choice and competition in markets, and a greater role for private enterprise and responsibility both in firms and households. The glaring exception is ACT's support for compulsory superannuation, which practically all business organisations oppose.

Fortunately, the government's White Paper appeared to be dead on arrival which, if confirmed, would be a well-deserved fate. The best way of looking at the scheme is that it guarantees everybody a taxpayer-funded retirement nest egg of $120,000 unless they make savings of their own. Any RSS savings they make up to that amount are confiscated. This is the result of abating the top-up by a dollar for each dollar saved. Low and middle income people in particular would have to have rocks in their head not to do their utmost to avoid saving through the scheme and benefit from the maximum top-up. The financial planning industry would get a huge boost. They would also have every reason to advise such clients to select RSS schemes that offer high-risk, Lotto-style investments because the taxpayer bears all the risk of losses.

Two other features of the scheme have gone largely unremarked. First, at the very time that the government is scrapping the surcharge and reverting to a universal pension it is putting forward a proposal which is as fiercely targeted as the one it backed away from in 1991, which also had a dollar for dollar abatement rate. Secondly, by indexing retirement incomes to prices rather than wages, the government proposes progressively to cut the relative level of guaranteed retirement income.

The government claims that these features will make the fiscal cost of superannuation more 'sustainable'. But the lower benefits and tighter targeting are the main reasons for this outcome - the government has effectively put these options back on the political agenda. Clearly, such an outcome could be far more effectively and transparently achieved by comparable adjustments to New Zealand Superannuation rather than by buying into the regulatory miasma of a compulsory savings scheme.

If the referendum goes down in September, compulsory superannuation will be a dead duck and ACT will need to rethink its position. It will have the chance to make its policy in this area more consistent with its overall philosophy. Given its approach to other welfare issues, the task should be straightforward. People should be expected to provide for contingencies at any stage of their lives whenever they are able to do so; retirement poses no special issues. Families, friends and voluntary help should be the next line of support. The state should stand behind with a basic safety net. It is the nature and extent of that safety net for all contingencies, including retirement, that needs to be debated. Now that the genie has been let out of the bottle on those issues with the referendum proposal, it should be revisited again after the September referendum within the Accord framework.

There is also a need for ACT not to lose sight of the bigger picture. Exposing MP's perks and parliamentary 'palaces' is all very well as far as it goes. But ACT should move on and get some far larger and grosser cases of privilege in its sights. Take the issue of producer boards which I mentioned earlier, and which didn't even feature in the recent policy document *ACT's Vision for New Zealand: A Strategy for Success.* The government has repeatedly said that the monopoly powers of producer boards will stay as long as farmers want them. Such an attitude is about pandering to special interests; it is not about putting New Zealand first. If the government had taken the attitude that the monopoly powers of unions would have stayed until the CTU agreed to their removal, or that import protection would have remained so long as the old, unreconstructed Manufacturers Federation wanted it - or more generally that nothing would be done without the permission of the relevant sector groups - the economic reforms would never have got off the ground.

The same defence of privilege runs through much of the government's new policy spending. Moves such as the abolition of the superannuation surcharge, the removal of the income and assets test on long-stay geriatric care, free doctors visits for those under six, and the planned removal of targeting for student income support are quite explicitly designed to benefit better-off people - they are a transfer from poor to rich. Low-income working families are missing out on tax cuts because the government has told them it has higher priorities to attend to. In its White Paper on superannuation, the government wrote:

> Those who earn little or who have high demands on their income should not be paying higher taxes to boost the incomes of those retired people who are already receiving an adequate income, as can happen under NZS.

That statement is totally inconsistent with the decision to abolish the superannuation surcharge.

Most of the other new spending goes to well-entrenched public sector lobby groups, and consequently will make very little difference to the quality of health and education experienced by the average New Zealander. Experienced ministers know full well that an extra billion dollars disappears into these failed delivery systems without even touching the sides. There is not the remotest chance that it will solve the problems of mediocre schools, huge public dissatisfaction with our hospitals, and welfare dependency trends which by the government's own projections are expected to continue to grow worse out to the end of the century. Tinkering again with the ACC scheme as proposed will produce no better results than it has a dozen times before.

I am told that one definition of madness is doing the same thing over and over again and thinking it will produce a different result. By that criterion, maintaining failed systems and pouring ever-larger amounts of money into them is crazy.

In the short term, then, I conclude that New Zealand seems condemned to the politics of muddle-through. It is not the private sector that needs to "snap out of it". The Business Roundtable shares the Treasurer's vision of a dynamic, fast-growing economy and we want to see him succeed in realising it. But that won't happen until the government calls an end to the teabreak and gets back to serious work.

However, a week is said to be a long time in politics. When people see the practical results of decisions like MMP, they think again. Political allegiances already seem to have shifted since the election. Politicians and others who think that more government spending equals good social policy will have some explaining to do if incomes stagnate and unemployment rises. Ordinary New Zealanders may soon start to wonder why the economy is struggling and fiscal surpluses are disappearing at a time when the world economy is on a roll. They may notice that the countries that are moving ahead are ones that are implementing the kind of economic reforms that New Zealand was putting in place until it stopped.

At that point those who have correctly diagnosed the reasons for the country's malaise may get a hearing. Political parties frequently do not get re-elected for their past achievements, however outstanding, as Winston Churchill found out to his cost. Often their best hope is to focus on new policies to rebut the charge that they have run out of steam. If the political wheel of fortune turns that way in New Zealand, we must hope that the prizes go to the parties, and to those within parties, with the right ideas at the right time.